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C O N T E N T S

Sales-tax and other State Taxes

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CHAPTER I

INTRODUCTION: SOME FEATURES OF THE SALES TAX

We know it on the authority of those who have delved into these matters that the sales tax was not unfamiliar to the people of ancient India and that it occasionally played a sinister part in the history of medieval Europe. While of interest to the research scholar, this information can be of little comfort, in today's India, to the shopkeeper who has to pay the tax or the customer to whom he passes it on in turn. Indeed, few of our questions have evoked such enthusiastic assent as the one which seemed to suggest that the sales tax could perhaps be discarded from the tax system of the country; yet all we had done was to ask for comment on a proposition, not our own, that the sales tax served no purpose which could not equally be served by customs, excise and octroi. The State Governments did not share the zeal for abolishing the sales tax. They were clear about its distinctive role and emphatic that, in spite of its late arrival, it had come to stay in their budgets. No State had a sales tax before 1938. Today few are without it. Of a total revenue of about Rs. 500 crores for all the States, the sales tax accounts for about Rs. 57 crores. It is second in importance only to land revenue which yields about Rs. 75 crores. In some of the States—Bombay, Madras and West Bengal for example—it is more important than even land revenue.

2. If few taxes raise so much revenue, few too have raised so many problems as the sales tax. This is not surprising. The sales tax impinges on a larger number of people and a larger number of interests than most other taxes. First of all, there is the consumer: the buyer of taxable goods. In this capacity, most people are affected including those whose income levels are well below that which attracts income-tax. Secondly, since it is from the seller that it is collected, the tax is of direct concern to numerous dealers of different sorts and sizes and habitats—wholesaler and retailer: large, medium and small: urban and rural—though the actual composition of the dealers affected is of course different for different States. On industry too, that is to say, on manufacturers, processors and so forth, the sales tax has various repercussions. Finally, there are the State Governments; anxious to secure the optimum revenue from the tax, and confronted at the same time with large and growing evasion, these have to meet many difficulties of law and administration. Not least of the difficulties, and one which exists for trader and manufacturer no less than for the State Governments and the Central Government, is the problem of co-ordination between the different States. This, in turn, is related to the framework within which the Constitution has decreed that the sales tax laws of the States shall operate.

3. We may dwell a little on the manner in which the parties just mentioned enter the picture of sales tax; we may also instance briefly some of the more

important aspects and problems which are present to the public mind. By and large, the revenue comes from the consumer. Sometimes he is painfully aware, and sometimes is left to be painfully curious, of what he pays as sales tax. The latter happens when the article has already borne the tax, perhaps at more than one of its successive sales, before he has had a chance of buying it. Occasionally, he demands to know whether all that is included as tax in the price he pays is in fact going to the coffers of the State: in other words, whether the dealer does not sometimes pocket the amount without passing it on to Government. There is also a different way in which the buyer enters the picture. This is when he evades the tax himself in concert with the dealer. While it is broadly true that, as the tax now operates, the burden of it is on the consumer, the task of complying with law and regulation falls to the lot of the dealer. A common problem is the complexity of the requirements placed on him. The small dealer, confronted with certain types of sales tax, finds these requirements particularly troublesome. Sometimes the dealer complains that the sales tax is driving him out of business. This is especially so when he is one of many links in the trade, the rate of the tax happens to be high, and the tax itself of a type which gets collected at every one of the links. For, in that case, though this does not always happen, some of the links may tend to be dispensed with by those who buy. From the point of view of industry, the main problem arises from the need to produce and sell at competitive prices. To the extent that the rates vary much between different States—if raw material, for instance, is not taxed at all in one State, but is taxed high in another—this competition may be materially affected. Since the organised industries tend individually to be made up of different concerns specialising in different processes, the total might well turn out to be high of a tax that is collected at each of the stages. Also, many industries, especially the bigger ones, are interested in buyers all over India; their special grievance is the lack of an all-India uniformity in rates and regulation. The State Governments face a problem of evasion which is seemingly intractable. The interests of States often clash and co-ordination, as we have pointed out, has become difficult. This in turn has meant new hardships for trade and industry. Often the problems are such that the Central Government have to intervene; but they have little power to do so effectively. Another difficulty arises from the ambiguities of the law and, not least, of the provisions of the Constitution; this of course is being resolved by the courts; but judicial decision takes time and, often enough, judicial interpretation replaces one set of difficulties by another.

4. Some of these problems, especially those connected with inter-State trade, are such that it has occasionally been put forward as a solution that the sales tax should be removed from the purview of the States and placed in the Union List. Short of this somewhat drastic measure, various remedies are also suggested. For example, it is urged that all States should adopt a uniform multiple-point ('multi-point') tax; in disagreement with this view, but with equal confidence, it is held in other quarters that no problem would arise if only the single-point tax was adopted by all State Governments. As an improvement over the single-point tax is sometimes advocated what has come to be known as the double-point system; but there are

Suggestions regarding sales tax

other schools of thought which regard that system as far too complicated. The extension of the 'selective' sales tax¹ has also its supporters. In the context of all-India co-ordination has been canvassed the device of a purchase tax. It is claimed in its favour that it would not only bring about a solution of most of the difficulties, but would do so within the framework of the existing Constitution; when an article passes the boundary between two States, more than one Government are involved; but if State Governments, it is argued, will deal with their own traders who have purchased, and not with those of other States who have sold, the essentials of co-ordination will have been secured.

5. For a proper consideration of these and other suggestions, and of the problems which have occasioned them, we have to try and understand what the main features of the sales tax are in the forms in which it now operates in various parts of the country. A brief description of these aspects is attempted in the rest of this chapter. The next deals with the development of the sales tax: it seeks to describe and analyse the circumstances in which the sales tax has developed differently in different States. Partly connected with such development are the problems which have arisen in respect of the sales tax; some of these and the suggestions that have been made in respect of them are examined in Chapter III. The last two chapters of this section contain our conclusions and recommendations: Chapter IV is more specifically concerned with the Union and Chapter V with the States.

6. We have incidentally mentioned some of the terms used in describing the different systems of sales tax which prevail in India. Thus there are the selective sales tax, the multi-point tax, the single-point tax and the double-point tax. Also, there is the purchase tax as distinguished from the sales tax. In regard to these terms and certain others which will have to be used in describing the features of the sales tax or in discussing the specific problems connected with those features, a certain amount of clarification is necessary and it would be convenient to attempt it briefly at this stage before we proceed to a description of the features themselves.

7. We may first try to distinguish between a sales tax and a purchase tax, remembering that both may be levied by the States under the power given to them by the Constitution and that in either case it is only 'goods' that can be taxed and not, e.g., 'services' such as a lawyer or a doctor, or, at lower levels, a goldsmith or a barber, may render. The States' power to levy the sales and purchase taxes on goods is restricted in only one minor particular by the Constitution. The restriction relates to newspapers; only the Union can tax the sale or purchase of newspapers.

8. The sales and purchase taxes, then, with which we are concerned are taxes on the sales and purchases of goods. Obviously, we shall not have progressed much towards a real distinction by making the proposition that a sales tax is a tax on a sale, whereas a purchase tax is a tax on a purchase; for, a transaction which involves a sale by somebody must also involve a purchase by somebody else. In other words, sale and purchase are merely different ways of looking

at the same transaction. But a proper distinction can be drawn between the two parties to it; one is the seller and the other the buyer. We may, therefore, say that the sales tax is a tax which, with reference to the transaction of sale-cum-purchase, is levied on the seller, whereas the purchase tax is a tax which, with reference to the same transaction, is levied on the buyer. Now, an important element in the system of sale-cum-purchase taxation throughout the world is that the dealer may enter the picture as either seller or buyer, whereas the non-dealer enters only as a buyer. In other words, there is invariably a definition of 'dealer' (though this may be quite comprehensive and, as we shall see, may include municipalities and Governments), and no tax is levied on the sales of persons other than dealers. Taken in conjunction with this fact, the working definition we have adopted implies that there can, on the dealer, be either a sales tax (when he sells) or a purchase tax (when he buys in order to sell), while on the consumer who is non-dealer there can only be a purchase tax. It would be broadly correct to say of the nomenclature adopted in the sales tax systems of India that it adheres to this distinction between sales tax and purchase tax. When the tax is assessed on the turnover of the sales of a registered dealer, for example, and collected from that dealer, it is called a sales tax. If, on the other hand, it is assessed on the turnover of his purchases, and ignores whether he has sold what he has purchased, it is called a purchase tax. The point of purchase, like the point of sale, may arise at different stages. Thus, raw material may be bought by a manufacturer; the manufacturer's goods may then be purchased by a concern engaged in the further processing of those goods; having passed this stage, the article may then be bought by a wholesaler; and the further purchases may be first by the retailer and from him by the consumer. A similar chain of transactions, both sale and purchase, can be envisaged when the article is imported from abroad instead of being manufactured in India. As the goods and finished articles pass from the preliminary to the final stages, the number of purchasers at each stage usually keeps getting larger and larger; and when we come to the consumer, i.e., the last purchaser, we have not only a very numerous body of persons, but also one which is indeterminate in the sense that it is very difficult to keep track of the persons and collect the tax from them. That is the reason why not only the sales tax but even the purchase tax tends to be levied on the dealer, including in that term the manufacturer and the processor, etc. There is, however, one exception to this. Where the article bought is conspicuous and more or less readily traceable—a motor car for example—the purchase tax may, if necessary, be collected from the private buyer. As we shall see later, such a necessity has arisen in certain contexts and accordingly we do have a variety of purchase tax which is levied on the private individual who buys an article for his own use. Apart from this, the purchase tax is confined to the dealer and to the types of transactions we have mentioned, viz., purchase of raw material by a manufacturer, purchase of finished goods by a wholesaler and so on. Wherever it has been levied in preference to the sales tax or sometimes provided as an alternative to the sales tax—in the sense that Government levy either, but not both, at their choice—there have been specific reasons, usually administrative, for resorting to the purchase tax. Sometimes, as has been indicated, the purchase tax may be merely an additional safeguard; if a dealer's records of sales are unsatisfactory, the accounts of his

purchases may be looked into and a purchase-tax levied instead. In other contexts, the point of purchase may be inherently more convenient; thus a dealer in groundnut, who buys from farmers inside, and sells to manufacturers outside his State, can be taxed on his purchases; for it may be that the State Government find that his sales cannot be readily verified, because the buyers are not within the State; at the same time, the State Government are likely to find it most unsuitable to collect the same revenue in the form of a sales tax levied on the large number of cultivators who have sold to the groundnut dealer. It is necessary to keep some of these considerations in view as illustrating the distinction between the sales tax and the purchase tax. That distinction, as it has arisen in the actual administration of these taxes, is more than the formal or logical one that the sales tax is on the seller and the purchase tax on the buyer; it is in a very practical sense connected with a variety of administrative considerations arising in the process of levy and collection of the tax. It may be added that there are certain forms of sales tax which are very near in content to purchase tax but which should nevertheless be distinguished from the latter. Thus, sales tax, while levied on the sales, is sometimes related to the turnover of purchases; this happens when the accounts of purchases are normally maintained in sufficient detail, but not those of sales to the same extent, as in the case of small restaurants. In some States, a dealer of this kind is required to show the accounts of his purchases, and the turnover of sales is deduced from these accounts; the tax on them is not, therefore, purchase tax properly so called.

9. We have used the word 'turnover' in the context of both sale and purchase. Sometimes the term 'turnover tax' is used to describe the sales tax in some of the States in India. This, however, has no specific significance, i.e., there are no special characteristics of a turnover tax which, with reference to the systems which have developed in India, serve to distinguish this from the sales tax on the one hand or the purchase tax on the other. In so far as a turnover tax implies that the tax is collected not on each sale but on the aggregate of sales, i.e., turnover, it is merely descriptive of a practice which, for convenience, State Governments have had to adopt in this country. But what is sometimes emphasised by the use of the word 'turnover tax' is that the sales tax concerned is of a 'general' type, i.e., the tax is collected on the sales of the generality of goods passing through a dealer and therefore on what may broadly be termed his turnover. The distinction here is between a tax on selected goods and one on the large majority of the goods sold by the dealer. This distinction, however, is best conveyed by another term which has come to be used, viz., the 'general sales tax'. Where, on the contrary, only selected goods are brought under the sales tax legislation of a State, we may describe the system as the 'selective sales tax'.

10. Omitting further reference at this stage to the purchase tax and the selective sales tax, both of which are in practice of restricted importance, we may now turn to a consideration of the general sales tax. This has two main varieties: the multi-point and the single-point. There is also the double-point tax, but this may be regarded as a sub-variety of the single-point system. An important

distinction, in conception and design, between the multi-point system and the single-point system is that the latter seeks to ensure as far as possible that not more than a specific amount of tax gets added to the price at which the article is sold to the consumer; in other words, that the total tax charged in the passage of the article from the first dealer to the last in what may be a whole chain of dealers is not left to be decided by the indeterminate number of links which may exist in the chain, but is collected at only one of the number of sales which may be involved. The double-point system is also designed to keep control over the total amount of tax which may have been added; but in it the tax may be collected at two points instead of one, i.e., on two different sales of two dealers through whom the article has passed to the consumer. The importance of restricting the total tax element to a predetermined amount, or approximately that amount, arises from the fact that the single-point tax and the double-point tax are usually levied at relatively high rates. As we shall see later, the same consideration also leads to a large number of exemptions—especially of essential articles like foodgrains and cheap cloth—in these systems. As broadly descriptive of both the single-point tax and the double-point tax, we may use the terms ‘incidence-controlled’ system, though of course the description would be more applicable to the fiscal design of the system than to the economic facts of its actual working.

11. The multi-point system differs from both single-point and double-point in that it is not incidence-controlled in either structure or purpose. The rate is relatively low and the exemptions few. The accounts which the dealer has to keep are less complex than under the other system. This follows from the fact that the incidence-controlled system is so designed as to take account, at every stage, of whether the tax was paid at a previous stage or is going to be paid at a later stage. It is obviously a factor making for simplicity to tax each transaction by itself instead of troubling to provide for it as one of a series which it very often is. This will be clearer if we turn to the features of mechanism, including registration, associated with the single-point tax and the multi-point tax.

12. It is clear that a system of registration is necessary in either instance. The dealers from whom the tax is to be collected are numerous and widely spread. Administratively, it would be both costly and difficult to seek to collect the tax from all dealers, big, medium and small, urban and rural. Hence the need for ‘registering’ those from whom the tax is to be collected.

13. If it can be assumed that, of the kinds of articles on which the tax is proposed to be collected, all or practically all pass at one stage or another through a class of dealers defined in relation to their turnover of business, then it would suffice if the tax is collected from this class of dealers alone. These would be the registered dealers. Unregistered dealers would of course also sell, and often they would sell direct to the consumer, but on the assumption made in regard to the relevant kinds of articles, they would buy their requirements from one or more registered dealers and pay the tax as part of the price in the process of buying. On the other hand, they might buy from other unregistered dealers and sell direct to the consumers, but, again on the assumption made, the articles so bought and sold

would be relatively unimportant and therefore deliberately left out of the purview of the system. If then the registered dealers are asked to keep accounts of what they have sold to other registered dealers, they can be exempted from the tax so far as these particular transactions are concerned; in other words, they would pay the tax on only such transactions as represent sales to unregistered dealers and consumers. This process of exempting a specific type of turnover, viz., that which is related to sales to other registered dealers, can be repeated all along the chain, so that ultimately only that registered dealer pays the tax who has sold the article to an unregistered dealer or a consumer. To put it differently, a *sector* of dealers (consisting of registered dealers) is defined and brought into being for the purpose of operating the tax, and the tax is collected at only one point, viz., the point at which the article leaves this sector. The control of this point of exit for the purpose of the tax levy is the essence of the single-point sales tax.

14. But there is also the point of entry into the sector; this is the point at which the article is bought for the first time by a registered dealer from an unregistered dealer or from a person who is not a dealer at all. If, in a system of purchase tax, as distinguished from the sales tax, the tax is levied at this point of entry, we would have, instead of a single-point sales tax, a single-point purchase tax. In this instance, the extent of turnover would be the turnover of purchase and not the turnover of sale. In other words, every registered dealer would be exempt from tax on those transactions which he shows to be purchases from other registered dealers. The first registered dealer who has purchased pays the tax on the relevant turnover and no one else does at any point in the passage of the article to unregistered dealer or consumer.

15. Given a registered sector of dealers and the maintenance of the requisite accounts by every one within the sector, it will be seen that it is also possible to levy the tax not only at the point of exit or at the point of entry, but at both points. The essence of the double-point tax is a levy of this kind. The total tax which Government intend to levy on a particular article is split up between the two points; a specified amount is collected, at the point of entry, from the registered dealer who has first purchased the article, the tax itself being levied with reference to his subsequent sale of that article; and another specified amount is collected, at the point of exit from the sector, from another registered dealer, viz., the one who has last sold the article. This system too would be incidence-controlled, but with one minor qualification. The first tax, the one levied at the point of entry into the sector, would get added to the sale price at that stage; the second tax, therefore, would be assessed on a sale price which already included a sales tax and, to that extent, the tax element would be very slightly higher than the arithmetical sum of the two rates that have been charged at the two stages.

16. It is clear that in an incidence-controlled system, whether single-point or double-point, an important requisite is that the class of dealer registered should be able to maintain the necessary accounts. Assuming that the turnover limit for registration has been so fixed as broadly to ensure this requirement, it may

A purchase tax at the point of entry

Double-point levy of sales tax

Main features of a single-point sales tax

accounts of sales of articles which are exempted from the tax altogether, even if such articles are fairly numerous. We have already said that, because of the relatively high rate which is characteristic of the incidence-controlled system, a number of articles, especially the more essential ones, are usually exempted under that system. This again is a feature which distinguishes the system from the multi-point tax.

17. In terms of comparison with the incidence-controlled system, the essence of the multi-point system is the absence of a defined sector with reference to which it is sought to be ensured that the tax borne is not dependent on the total number of times the article has changed hands within that sector. The dealers are of course registered, but each pays the tax irrespective of whether it is also collected from a preceding or succeeding dealer in the particular chain of transactions. This, as we have said, makes for relative simplicity of accounts; the same consideration is reflected in the fewer exemptions granted under the system, and another related feature is that the dealers who are registered are relatively more numerous than under the other system. In other words, the turnover limit for purpose of registration is much lower than for the single-point or the double-point. Last, but not least, the multi-point rate is substantially lower than that under the incidence-controlled system.

18. We have, for convenience of exposition, started with the features of the two systems and argued back to the class of dealers, coverage of exemptions and rate of tax, but another, and in point of sequence more appropriate, way of explaining this relationship is to say that the multi-point system is occasioned by a decision of Government (1) to make the tax applicable to the majority of articles of consumption (including those which may be relatively essential); (2) to levy it on a large number of dealers (big, medium and small); and at the same time (3) to levy so low a rate that it is not a matter of serious consequence that the tax is paid several times over on the same article or that it is also levied on the essential articles. All the features of the multi-point system are then seen to be consistent with the intention and the design.

19. On the other hand, the single-point tax may be said to follow from a decision of the following nature on the part of Government: (1) to make the tax applicable to a large variety, but not the majority, of articles; (2) to levy it on a limited number of dealers, on the underlying assumption that the articles in question are such as will by and large pass, at one stage or another, through the limited but defined sector of tax-paying dealers; and (3) to pitch the tax at a relatively high rate, ensure that it does not have to be paid twice over and, further, since some of the articles sold by these dealers cannot well be taxed at that rate because of their importance to the less well-to-do consumer, provide for an adequately wide range of exemptions.

20. Having considered briefly some of the features which distinguish the sales tax from the purchase tax and the main varieties of the sales tax from one another, we may pass on to certain matters which are common to all these. Some of the

Main features of the multi-point sales tax

Reasons for adopting multiple-point sales tax

Reasons for adopting single-point sales tax

Common features of sales tax system

items we have in mind are intimately connected with legal definition and interpretation, while some are inherent in the administration of the tax. We have, for example, used the terms 'sale', 'goods' and 'dealer'; these may be examined in more detail, as also the limit of turnover which constitutes for different classes of dealers the criterion on which registration is imposed as a legal obligation. Other topics to be considered are the rates of tax and the relation of these to different categories of articles; the total exemptions from the tax as these arise in various degrees and for different reasons; and, finally, certain aspects of assessment, collection and appeal, and of administration generally. In many of these features, as we have already indicated, there is considerable difference between the systems of different States. For a State-wise account of the main features, reference is invited to Appendix A. No description of the systems of individual States will be given in the following paragraphs, except for illustrative purposes.

21. The layman who asks: "What is a sale?" would not have to go without an answer; he would find plenty of replies in the reported judgments of courts of law; and he would not be a layman if, piecing them together, he was able to say when, where and how a sale becomes a sale which a sales tax may tax. Unable to avoid some reference to this highly technical matter, we propose to pursue the path of caution by leaving the position to be explained by extracts from authoritative judgments. The two we select have the virtue of being lucid. One is from a judgment of the Madras High Court*. The other and much shorter extract is from a judgment of the Supreme Court of India†. Either judgment of course like the judgments of all courts, is concerned not with expounding the subject as a whole, but only with those aspects of it which are relevant for a decision on the matter specifically before the Court.

22. The Madras High Court says: "The word 'sale' has both a legal and a popular sense. In the legal sense, it imports passing of property in the goods. In its popular sense, it signifies the transaction which results in the passing of property.....If one leaves out of account sales tax legislation which is of comparatively recent origin, questions relating to sale of goods usually come to courts only in connection with disputes between sellers and purchasers.....For deciding these and similar questions, it is necessary to determine at what point of time the property in goods passed to the purchaser. Sometimes when the point for determination is as to jurisdiction of court to entertain suits based on contract, it may be material to consider where property in the goods passed, that being part of the cause of action. These being the questions which are accustomed to be debated in connection with the sale of goods, it is natural that a lawyer should, as a matter of first impression, approach the question of sale under the Sales Tax Act with the same concept of a sale. But if the matter is further considered, it will be seen that considerations which arise under the Sales Tax Act are altogether different from those which arise under the Sale of Goods Act. The object of the Sales Tax Act is to impose a tax on all sales and it is a tax imposed on the occasion of sale.....So far as

*Popatlal Shah vs. State of Madras, August 1952.

†State of Travancore-Cochin and Ors. vs. The Bombay Co. Ltd., Alleppy and Ors., October 1952.

the Government is concerned, it will be immaterial at what point of time property in the goods actually passed from the seller to the buyer. Of course, there must be a completed sale before tax can be levied, and there would be a completed sale only when property passes.....But when once there is a completed sale, the question when property passed in the goods would be a matter of no concern or consequence for the purposes of the Sales Tax Act. The Government is interested only in collecting tax due in respect of the sale and the only fact which it has to satisfy itself is whether the sale took place within the Province of Madras. In this sense, the popular meaning of the word is the more natural one, and there is good reason for accepting it."

23. We cite the following observations of the Supreme Court merely to emphasise the point that much judicial ground has apparently yet to be covered before we shall know all the implications of sale for the purposes of the sales tax:—

"In the foregoing discussion, we have assumed that the word 'sale' used in the Constitution has the same meaning as in the law relating to the Sale of Goods, but it has been suggested in the course of the argument that it imports a wider concept than the passing of title from the seller to the buyer which, under that law, is determined by highly technical rules based upon the presumed intention of the parties and liable to be displaced by their expressed intention. We leave the point open as it is unnecessary for the purpose of these appeals to pronounce any opinion upon it."

24. The actual meaning attached to the word 'sale' in the Acts of different States may now be illustrated. In Madras, Mysore, Travancore-Cochin and Hyderabad, sale means transfer of property in the course of trade or business. By implication, all other sales are excluded. Casual sales by individuals, sales of food by hostels attached to educational institutions, sales of old furniture, for example, by firms not dealing in furniture and so on are, therefore, not liable for the tax in these States. The States of Bengal and Delhi define sale as transfer of property in goods for money consideration, which accordingly excludes transfers for other consideration like exchange or barter. According to the Acts of certain States, the sale is deemed to have taken place in the territory of the State, if at the time when the contract of sale or purchase was made, the goods were actually in those States. In certain States, the transfer of property in goods supplied in the execution of a contract is also included in the definition of sale.

25. The term 'goods' has usually been defined to include only movable property other than actionable claims, stocks, shares and securities. In some States, the term includes growing crops, grass, trees and other objects which are attached to the earth, but are to be separated from it under the terms of the contract.

26. A 'dealer' is defined in most Acts as a person who carries on the business of selling or supplying goods in the State concerned. A co-operative society or a club or an association which sells goods to its members is also

treated as a dealer. Under some of the Acts, a municipality or a State Government carrying on the business of selling or supplying goods come within the definition of dealer; in certain others, both the State and Central Governments are excluded. The legislation of certain States purports to include within the term dealer all persons of that category, irrespective of their residing in other States, provided only they sell or supply goods to persons resident in the territory of the State concerned. A more restrictive provision appears in the Acts of other States; thus, it is the resident agent or manager of a non-resident dealer, and not the non-resident dealer himself, that comes within the purview of the term dealer as defined in these Acts.

27. The liability of a dealer is fixed on his 'turnover' or the aggregate amount of the sale prices of his goods. Sale price is the amount of value or consideration payable to a dealer for the sale of any goods, including any sum charged for anything done by the dealer in respect of those goods at the time of or before that sale. It, however, excludes the amount of discount allowed as a matter of trade practice; it also excludes the cost of freight or delivery and the cost of installation, when such costs are separately shown. Different limits of actual turnover are laid down in different States for fixing the liability of dealers to pay the sales tax. Usually, there are two distinct limits, one for importers and manufacturers and the other for all other dealers. A relatively low limit of turnover for registration of importers and manufacturers has been found necessary in actual practice. The points of manufacture in the particular State, as well as of import into the State either from abroad or from other States, are obviously of strategic importance in that it is from these points that the trade channels of that State commence and broaden out in their flow to the ultimate consumer. Hence the importance of ensuring that too many points are not left out at the stages of import and manufacture. Thus, unless the limit for registration was adequately low, the unregistered—and therefore non-taxpaying—importer would tend to spring up in larger numbers to the detriment of the registered importer as well as of the revenues of the State. Small manufacturers can, of course, be ignored if the goods they produce happen to be non-taxable, i.e., 'exempted', but where a large number of small manufacturers together account for a significant proportion of some taxable variety of goods, it is of obvious importance that, along with the bigger manufacturers of the same kind of goods, they too should be brought within the system of registration. It is for reasons such as these that the limit for importers and manufacturers is nowhere more than Rs. 10,000; it is Rs. 5,000 in certain States (e.g., Madhya Pradesh and Madhya Bharat). The limit for other categories of dealers varies very considerably. Thus, it is Rs. 7,500 in Assam and Hyderabad; Rs. 10,000 in Madras, Mysore, Orissa and Travancore-Cochin; Rs. 15,000 in Uttar Pradesh and Bihar; Rs. 25,000 in Bombay and Madhya Pradesh; and Rs. 50,000 in Bengal and Punjab.

28. Certain sales, then, are excluded from the purview of the tax in different States, not merely because of the definition adopted of 'sale', but as a result of other specific provisions in the Acts. Before

Sales not liable to tax

passing on to the category of exemptions, we may enumerate the categories of sales thus excluded:—

- (1) sales not in the course of trade or business;
- (2) sales for other than money as consideration;
- (3) sales of immovable property;
- (4) sales of actionable claims, stocks, shares or securities;
- (5) sale of agricultural produce grown by the cultivator himself or on land owned by him; and
- (6) sales by dealers whose annual turnover is below the taxable quantum.

Many of these exclusions are dictated by administrative considerations. For example, sales by agriculturists and sales by dealers with low turnovers are excluded for the reason that it would be both difficult and costly to collect the tax from them, besides involving harassment to a large number of small people.

29. Specific exemptions are granted from the levies of sales tax either under Schedules to the Acts or by Government notification. The exemptions may be regarded as of four categories: (i) certain goods which are treated as 'essential' for various reasons (including goods which enter substantially into the cost of living of the working class, the lower middle class, etc.); (ii) goods which are already taxed appreciably under other laws; (iii) products of certain cottage and village industries; and (iv) other goods. To the first category belong the exemptions granted in respect of one or more of the following in various States: foodgrains, milk, fresh vegetables, fresh fruits, salt, gur, edible oils and oilseeds, kerosene, matches and cheap cloth. The second category includes petrol, electricity, tobacco, etc., in the particular instances in which it happens that these are liable to other and substantial levies of the State Government. Thus, electricity duty and selective sales tax on petrol imposed by separate enactment are both specifically excluded from general sales tax. Exemptions of khaddar, handloom cloth, hand-made paper, *ghani* oil, hides and skins, cotton yarn, etc., are granted as part of the encouragement accorded by different State Governments to cottage and village industries. The other miscellaneous exemptions include articles like text-books, sacred books, agricultural implements worked by hand, cattle foods, fertilisers, manure, certain medicines, etc. The list of exemptions varies from State to State. As already pointed out, it is larger in the single-point States than in the multi-point ones. Madras has the shortest list, the only articles exempted being salt, handloom yarn and khaddar; while Saurashtra has the longest, comprising more than 60 articles. Besides sales of goods, sales to or by certain institutions, associations or Government Departments are exempted in different States. These sometimes include sales to co-operative and other institutions producing or marketing cottage industry products, sales by the canteen stores of the Defence Department, etc. Apart from these outright exemptions, there are instances of articles on which lower or concessional duties are charged. For example, in Madras, by way of exception to its multi-point levy, cotton yarn is taxed at only one stage of sale at half per cent., bullion and specie at one stage at quarter per cent. and hides and skins and cotton at one stage at the ordinary rate. Vegetables, fruits, flowers, fish and meat are taxed at slab rates up to

turnovers not exceeding Rs. 20,000. Mysore and Travancore-Cochin have more or less similar concessional rates for these and a few more goods. Uttar Pradesh exempts the sales of raw hides and skins, hukkah tobacco, shellac and sann hemp on payment of fees at the rate of four annas per Rs. 100 subject to a maximum of Rs. 1,000 and levies the tax at only one point (sale by importer or manufacturer) on edible and non-edible oils and on tanned leather. In Hyderabad, fruits, books and cotton yarn are taxed at only one stage, i.e., first sale in the State.

30. So far as the single-point States are concerned, Orissa levies a tax of only quarter of an anna on sales of matches and cotton yarn against the general rate of three-quarters of an anna per rupee. Bihar levies a three-pies tax on edible oilseeds and oils, cotton cloth, all cereals and pulses, bread, flour, bullion and specie, while the general rate is six pies per rupee. In Madhya Pradesh, vegetable oils are charged at a lower rate while in Saurashtra bullion and specie are subject to a tax of quarter per cent. In Bombay, cotton, oilseeds, art silk yarn, woollen yarn, hides and skins, are charged only to the last point tax at a lower rate (one per cent.) for cotton and three pies per rupee for others (against the general rate of six pies), while bullion and specie are charged at quarter per cent. at the first point and quarter per cent. at the last point. As already stated, exemptions are fewer in multi-point States: even foodgrains are not exempt in certain instances. The general argument advanced in support of this policy is that so far as the rural population are concerned, they, in many instances, consume their own produce and, to that extent, their cost of living is not unduly affected by the levy of tax on essential commodities; it is added that it becomes necessary to tax certain exportable articles and raw materials at concessional rates in order to ensure that the competitive capacity of the trade and industry of a State is not unduly handicapped. The high rate of tax in a single-point system necessitates, as we have said, a larger number of exemptions in order that trade, industry and the poorer classes of consumers are not burdened with too heavy an incidence. Most of the essential commodities and raw materials are, as a rule, completely exempted under a single-point tax, in a few States, a lower rate is imposed on such articles.

31. Just as certain essential commodities and raw materials are either exempted completely or taxed at a lower rate, there are certain types of goods, generally consumed by the relatively well-to-do classes, on which higher rates of taxes are levied in a number of States. These goods are sometimes called 'luxury goods', though not all of them can be properly deemed to be articles of luxury. The schedule of these special goods differs from State to State. The articles common to most schedules are:—

**Higher tax on
'luxury goods'**

- (i) motor vehicles and their accessories;
- (ii) refrigerators and air conditioning plants;
- (iii) wireless reception sets, radios, gramophones, etc.;
- (iv) cinematographic, photographic and other cameras and accessories;
- (v) electrical goods, instruments, etc.;
- (vi) fountain pens, pencils of costly types;

- (vii) clocks, time-pieces, watches and parts thereof;
- (viii) upholstered furniture, iron and steel safes, almirahs and furniture;
- (ix) arms and ammunitions; and
- (x) perfumery, cosmetics, vanity bags, furs.

Bombay has the largest list of such articles, while Madras has the smallest. The rates of tax vary from nine pies to twenty-four pies. In the multi-point States, the higher rate is levied at the first stage of sales in addition to the ordinary rate of tax, while in the single-point States, the tax itself is collected at a higher rate and as an additional levy.

32. Every registered dealer is liable to the sales tax. The payment of tax is, however, limited to the amount of tax on his turnover of goods in respect of sales which do not fall within the scope of the exemptions and exclusions. Therefore, while submitting returns of his turnover, the dealer computes the tax payable by him by deducting from his gross turnover, the turnover in respect of exempted and excluded sales. This amount has to be paid into a Government treasury and the receipt sent along with the return of turnover. These returns have to be submitted periodically, every quarter in most States, half-yearly in some and monthly in a few. It is open to the dealer, if he discovers any error or omission in the return submitted by him, to inform the Sales Tax Authorities and submit a revised return.

33. The year of assessment is usually the financial year, though in some States it is the accounting year according to the trade practice observed by the dealers concerned. Normally, the assessment is made for the whole year. Shorter periods of assessments are, however, prescribed in a few States for classes of dealers who it is thought are likely to evade the tax. Where the Sales Tax Authorities are satisfied about the correctness and completeness of the returns furnished by the dealer, the assessment is made on the basis of the returns. Where the returns have not been furnished or where the Sales Tax Officer is not satisfied with the correctness of the return that has been furnished, he can assess the dealers, after issuing due notices to them, to the best of his judgment. A similar procedure is adopted in respect of dealers who have wilfully avoided registration and failed to submit returns. In such assessments, the Sales Tax Officer calls for books of accounts and other documents to help him in making an assessment as nearly conforming to facts as possible. But if the books of accounts are not maintained, or are maintained incompletely or fraudulently, the Officer has no other alternative but to assess the tax payable on the basis of such evidence as is available to him, e.g., previous assessments, the dealer's status, his reputed financial circumstances, sales made to him by other dealers, etc. The same procedure is followed with respect to dealers who are liable to the tax but have evaded registration and, consequently, the submission of returns. Where this occurs, penalties are imposed in addition to the assessment made according to the best of the Sales Tax Officer's judgment. The difference between the tax paid by the dealer and the tax assessed by the Sales Tax Officer is thereafter adjusted. Where additional

tax is recoverable, notice is sent to the dealer to pay the amount within a prescribed period. If the dealer has paid more tax than was due, a refund is granted or the excess is permitted to be adjusted against future payments. In regard to the inspection of the dealer's books, the Sales Tax Officers have, in most States, powers of entering into and searching the premises of the dealers, their godowns, etc., and also the power to seize and detain books of accounts, documents, goods, etc., relevant to their enquiry. Similarly, the Sales Tax Authorities have the power to re-open assessments, if fresh information involving suppression of sales, fraudulent practices, under-estimation, etc., becomes available to them. For dealing with the assessment of small traders who find it difficult to maintain elaborate accounts, several States provide a scheme of composition under which the amount of the tax is determined on the basis of taxable purchases: a specified percentage is added to these as assumed margin of profit, and the resultant figure is treated as the turnover of taxable sales.

Appeals and revisions 34. Against the assessment orders (or in some States, against any order of the Assessing Authority), the dealers have the right to appeal to, or of seeking revision by, the higher authorities. In some States, semi-judicial institutions like Appellate Tribunals consisting of independent and experienced persons, are established to hear final appeals. In others, either the Boards of Revenue or authorities like the Financial Commissioners are the final appellate authority. A reference can be made either by the dealers concerned or by the Assessing Authority to the High Court on any point of law arising from the orders of the revising or appellate authorities. The appeals or applications for revision have to be made within the prescribed time and have to be accompanied by satisfactory proofs of having paid the amount of taxes as assessed (or, in some States, the amount admitted by the dealer himself or a certain percentage of the tax assessed, whichever is greater). Powers of revision of orders of assessment, review and rectification of mistakes are given to the Sales Tax Authorities in most States. Whatever information comes into the possession of the Sales Tax Authorities in the course of assessment of any dealer is to be treated as confidential and cannot be disclosed except for purposes of criminal prosecution or for being supplied to the Income-tax Authorities, or to other Sales Tax Authorities, in furtherance of proper collection of taxes.

Offences under the sales tax laws 35. The principal offences under the different State Sales Tax laws are—

- (i) carrying on business without being registered (or without being licensed where licence is necessary);
- (ii) not furnishing returns within the prescribed time, or willfully furnishing wrong and false returns;
- (iii) not paying the tax when due;
- (iv) falsely representing oneself as a registered (or licensed) dealer;
- (v) knowingly producing incorrect accounts, documents, etc., or furnishing incorrect information;
- (vi) obstructing an officer in making inspection, search or seizure;

- (vii) aiding or abetting any person in the commission of any of the above offences.

These offences are punishable with fine and in some States with imprisonment. Most of the States however provide for composition of these offences by payment of prescribed amounts.

36. The administration of the sales tax is in most States in the hands of a department separately constituted for that purpose. Sometimes, only the main function of the department is related to sales tax and it is entrusted in addition with the collection also of taxes like agricultural income-tax, entertainment tax, tax on motor spirit, etc. Below the Head of the Department who is called Commissioner or Collector of Sales Tax, Commissioner of Commercial Taxes, etc., there are Deputy or Assistant Commissioners etc. and Sales Tax (or Commercial Tax) Officers. In most States, the assessment is done by officers of gazetted or senior rank, while in a few States it is entrusted to subordinate and non-gazetted executive staff. The assessing authorities are kept distinct from the appellate authorities in most States; in some, however, the two functions are combined at the higher levels. In a few States, e.g., in Bombay and Saurashtra, there are Advisory Committees consisting of representatives of trade and industry who serve to effect as a liaison between the administration and the tax-payers by bringing to the notice of the former grievances and hardships of a general nature.

37. We may conclude these observations on the features of the sales tax and its administration by drawing attention again to an aspect which we mentioned at the outset, viz., the importance of the tax as a source of revenue for the States. All Part A States now levy the tax; so do all Part B States with the exception of Rajasthan which, however, has recently passed legislation to introduce the tax; and among Part C States, Delhi, Vindhya Pradesh and Manipur already levy the tax. Taking all the States together, the total revenue from the sales tax estimated for the budgets of 1954-55 is over Rs. 57 crores. The figures for individual States are given below:—

TABLE 1.—Receipts from sales tax

	(In crores of Rupees) 1954-55	
	(Budget Estimates)	
<i>Part A States</i>		
Andhra	...	3.15
Assam	...	0.72
Bihar	...	2.72
Bombay	...	16.61
Madhya Pradesh	...	1.95
Madras	...	9.50
Orissa		

TABLE 1.—*Receipts from sales tax—contd.*

Punjab	...	2.14
Uttar Pradesh	...	5.25
West Bengal	...	4.60
Total for Part A States	..	47.94
<i>Part B States</i>		
Hyderabad	...	2.00
Madhya Bharat	...	1.40
Mysore	...	1.57
PEPSU	...	0.47
Saurashtra	...	0.70
Travancore-Cochin	...	2.05
Total for Part B States	...	8.19
<i>Part C States</i>		
Delhi	...	1.12
Vindhya Pradesh	...	0.18
Manipur	...	0.02
Total for Part C States	...	1.32
Total for all States	...	57.45

CHAPTER II

THE DEVELOPMENT OF THE SALES TAX

We have considered briefly some of the main features of the sales tax as it operates in different States in India. Why is it that the tax is not uniform, and that in design, no less than in detail, there is so much difference from State to State? Part of the explanation may be found in the fact that many of the States are newcomers to this field of taxation still engaged in experimentation on different kinds of sales tax to suit different conditions. The chronology of development is not without significance, especially if we remember that the existence of an older system, already tried in an important State like Madras or Bengal, offers a strong inducement to a neighbouring State to copy that system.

2. The first sales tax to be levied in India was a selective sales tax. It was introduced in 1938 in Madhya Pradesh in the form of 'petrol tax', i.e., a tax on the retail sales of motor spirit and lubricants. The petrol tax, often governed by a separate enactment and therefore distinct from legislation pertaining to the general sales tax, has since been introduced by various States. The General Sales Tax itself dates from 1939 when Madras introduced the multi-point system. Next came Bengal which adopted a single-point system in 1941. The Punjab Act of 1941 was broadly based on the multi-point model, while the Bihar tax of 1944 followed the single-point system of Bengal. The next relevant period is 1946-1948. Five other States adopted the tax before 1st April 1948. Four of these, viz., Bombay, Assam, Madhya Pradesh and Orissa adopted the single-point system; the fifth was Uttar Pradesh which adopted the features of the multi-point tax, but with significant modifications. Since April 1948, have come in most of the remaining States, including almost all the Part B States. Of these, some adopted the multi-point system of Madras (Mysore, Travancore-Cochin and Hyderabad) and the rest a single-point tax either on a large variety of articles or sometimes on so few as to make the tax indistinguishable from a selective sales tax (PEPSU, Madhya Bharat and Saurashtra). The models originally introduced have undergone substantial modifications or sometimes have been replaced by altogether different structures. Punjab, which changed over from multi-point to single-point, and Bombay, which proceeded from single-point to multi-point and then to double-point are notable examples. Moreover, purchase taxes have been introduced to a limited extent in different States. The exemption lists, as we have seen, vary widely and so do the levels of turnover at which dealers are licensed or registered.

3. All this cannot be explained in terms of mere chronology and contiguity. Obviously, there are other considerations which underlie the fact that Madras, for example, has a multi-point system whereas Bengal has a single-point one. Before attempting to analyse the main factors responsible for the development of

Chronology of the sales tax levy in India

Operation of the tax in certain illustrative States

different systems in India, it would be convenient to examine two specific aspects in a little more detail; firstly, the main features of the tax as it has operated at different periods in a few typical States and secondly, the measures for all-India co-ordination, administrative and other, which have been taken from time to time, including those which are embodied in the Constitution in the shape of restrictions on the powers of the States.

4. The six States we may consider in some detail for purposes of illustration are Madras, Bengal, Bihar, Bombay, Uttar Pradesh and Madhya Bharat.

Madras.—The relatively simple multi-point tax which was introduced in Madras in 1939 has now grown into a complex system. Initially, the tax was levied at the rate of five rupees per month on turnovers between Rs. 10,000 to Rs. 20,000 a year and at $\frac{1}{2}$ per cent. on turnovers exceeding Rs. 20,000 a year. In 1940, the rate of tax was reduced to four rupees per month and $\frac{1}{4}$ per cent. respectively. The rates were changed in 1943, the tax was increased to eight rupees per month on turnovers between Rs. 10,000 and Rs. 15,000, twelve rupees per month on turnovers between Rs. 15,000 and Rs. 20,000 and one per cent. on turnovers exceeding Rs. 20,000 a year. Since January 1948, the slab rates of taxes have been abolished, the general rate of tax has been increased to three pies per rupee and an additional tax at one stage of sale at three pies or six pies per rupee on certain luxury articles like motor vehicles, radio sets, electrical goods, photographic cameras has been introduced. The absolute exemption previously enjoyed by bullion and specie, cotton yarn and handloom cloth has been withdrawn. Bullion and specie are now chargeable to tax at $\frac{1}{4}$ per cent. only on the sale by the first dealer in the State; cotton yarn other than handspun yarn is also taxed at $\frac{1}{2}$ per cent. at only one stage, khadi is exempt when sold by persons dealing exclusively in it while handloom cloth of mill yarn is liable for tax at only one point. Taxation of 'works contracts' on the proportionate cost of the goods involved in such contracts was also introduced about the same time. From August 1949, on articles of food and drink sold in hotels with turnovers exceeding Rs. 20,000 a year, the rate of tax was increased from three pies to four and a half pies per rupee. Sales of cotton which had previously been exempt were made liable to a tax of $\frac{1}{2}$ per cent. at a single point. Some of these measures were necessitated partly by the need to make up the loss of revenue occasioned by Prohibition and partly by the necessity for meeting the increased expenditure on development schemes. For encouraging the handloom industry, the tax on handloom-woven cloth was reduced, in 1951, from three pies to one and a half pies per rupee. The State Government have recently passed a Bill imposing a tax at the rate of fifteen pies per rupee at one point in addition to the multi-point tax on all mill made cloth (including woollen and silk fabrics but excluding coarse cotton cloth of 16 counts and less), and exempting handloom cloth completely from the sales tax.

Bengal.—In 1941, when the sales tax was introduced for the first time, the rate was three pies per rupee. The taxable quantum was Rs. 10,000 a year for importers and manufacturers and Rs. 50,000 for others, with provision for voluntary registration for dealers having a turnover more than Rs. 10,000 a year. The rate of tax was

increased to six pies in 1944 and to nine pies per rupee on 25th June 1945. There has been no change since then. Other amendments to the Sales Tax Act have been made more with a view to checking evasion, e.g., in 1949, liability to pay tax was brought forward from three months after the end of the year in which the dealer's turnover first exceeded the taxable quantum, to a date two months following the day within the year on which his turnover exceeded the taxable quantum. The exemption in favour of handloom cloth sold by dealers dealing exclusively in them was replaced by the exemption of *dhotees*, *sarees* and *lungis*, both millmade and handloom-woven, sold at prices not exceeding the notified maximum price limits. In 1949, the exemption list was curtailed by withdrawing from it articles like mustard and rape oil and oilseeds, matches, fresh fruits, coal and coke, coal gas, charcoal, fuel wood, hides and skins and handmade paper; an additional revenue of about Rs. 50 lakhs was expected in consequence; but on the more important of these items, the exemption was restored almost immediately. Recently, as a measure of anti-evasion, the Bengal Government has imposed a tax at the rate of three per cent. on sales of cigarettes by importers and manufacturers.

Bihar.—The rate of tax when the Bihar Sales Tax Act was enacted in 1944, was three pies in the rupee, though there was provision in the Act to increase the rate to six pies per rupee, or to levy a lower rate, on specified goods by means of a notification. The Act more or less followed the Bengal Act in regard to exemptions, procedure and the system of tax. It was repealed by the Bihar Sales Tax Act of 1947 under which the rate of tax continued to be three pies. A reduced rate of one and a half pies per rupee was levied on tobacco despatched outside the State and articles like *gur*, potato, mustard seed and oil, rape seeds and oil, fertilisers, matches, text-books and coal-gas which were tax-free hitherto, were made liable to tax. Despatches of taxable goods by or on behalf of a dealer to outside Bihar were made taxable with effect from 1st July 1947. Bihar was the first single-point State to levy a tax on such exports. In 1948, the rate of the tax was first increased to six pies per rupee on luxury articles like motor vehicles, cigarettes, cheroots, upholstered furniture, ivory articles, etc.; then this rate was extended to all tobacco products including biris, and to cycles and cycle parts. In October of the same year the general rate itself was increased to this level. Certain goods like mustard oil, cotton cloth, coal and coke continued to be taxed at three pies per rupee and the tax on despatches outside the State also continued to be leviable at the old rate of three pies per rupee. In April 1949, foodgrains were made liable to sales tax at three pies. The tax on luxury goods was increased to nine pies per rupee, except in the case of despatches outside the State where the rate remained at three pies until the Constitution intervened to prohibit the levy of sales tax on despatches of goods outside the State. The most important change made thereafter was during 1950, when the exemption granted to sales of raw materials to manufacturers and processors for manufacturing or processing of goods for re-sale was withdrawn in order to make up part of the loss which had resulted from the Constitutional restrictions. The list of luxury goods has been enlarged. The rate of tax on rape seed and oil, *karā* salt and raw jute has, however, been reduced from six pies to three pies.

Bombay.—In Bombay, the main features of the tax as first introduced in 1946 were these: (i) the minimum turnover for taxation was fixed at Rs. 30,000 a year; (ii) sales by a registered dealer to another of goods either for re-sale or for manufacture of other goods for sale were exempt; (iii) sales of goods despatched to an address outside the Bombay State were also exempt. The rate of the tax was six pies per rupee. A large list of exemptions was incorporated in the Act. The basis of the tax was more or less the same as in Bengal and Bihar. In 1947, on the recommendation of a committee which had been appointed to enquire into the system, the taxable limit was reduced to a turnover of Rs. 10,000 a year in the case of importers and manufacturers so as to prevent loss of revenue through a large number of dealers being below the limit for registration. On the lines of the Bengal Act, voluntary registration was provided for dealers having turnovers between Rs. 10,000 and Rs. 30,000 a year. In 1948, the higher rate of one anna per rupee was levied for the first time on certain luxury articles. The list of luxury articles was enlarged in 1949 and despatches to persons outside the State were also made liable to tax at rates half of those leviable on sales within the State. With the coming into operation of the Constitutional restrictions, the State lost its tax receipts estimated at Rs. four crores on sales of goods despatched outside the State. To make up this loss and to meet the growing expenditure on schemes under the Five Year Plan, the single-point system was changed in 1952 to a multi-point one, the rate of general tax being three pies per rupee. A special tax was levied, in addition, at the first stage of sale, at rates varying from three pies to nine pies per rupee on certain luxury articles. The enactment of the Essential Goods Act created a further complication in that some of the essential goods which were taxed previously had to be taxed at not more than the original rates. The exemption previously granted in respect of raw materials used by industries was withdrawn and certain important raw materials like cotton, oilseeds, yarn (other than cotton yarn which continued to be exempt), were charged lower and concessional rates of taxes. However, in view of the several representations from trade and industry regarding the hardships suffered by them under the multi-point tax, the Bombay Government felt that its system required change and, in December 1953, passed the present measure under which a two-point sales tax is being levied since 1st April 1954. Under this system, a 'sales tax' at the rate of three pies per rupee on ordinary goods and at rates varying from six pies to fifteen pies in the rupee on special goods, is levied at the first stage of sale and what is termed by the Act a 'general sales tax' is levied at the last stage of sale at the rate of six pies per rupee. In addition to the list of exempted goods, concessional rates are charged on numerous articles. Raw cotton, cotton seeds, artificial silk yarn, hides and skins, raw silk, and silk yarn, raw wool and woollen yarn and staple fibre yarn are charged to a lower rate only at the last stage. Such of the 'essential goods' as are not either exempted or taxed at a lower rate are made liable to the last point tax of six pies, i.e., to the same rate as was levied under the 1946 Act. To facilitate the *entrepot* trade of Bombay, authorisation certificates are granted to dealers whose turnover in respect of despatches to places outside the State exceed Rs. 50,000 and, subject to certain conditions, they can send goods free of tax to outside places. Sales between intermediate dealers are similarly

excluded from the tax at the last stage by a system of licences which are issued to those dealers whose turnover of sales to registered dealers exceeds Rs. 50,000 a year. Sales to licensed manufacturers of raw materials for use in manufacturing goods for re-sale are also exempt from the last point tax. To equalise the incidence of the tax on goods which are imported, not for re-sale, but for consumption by registered dealers like producers or manufacturers, a purchase tax is levied at rates equal to the first-stage sales tax. Similarly, with a view to preventing evasion of the tax on purchases by unregistered dealers from outside the State of goods notified from time to time by Government, a purchase tax is leviable on these at rates equal to the corresponding sales tax rates. For the present, this purchase tax is levied only on motor vehicles, chassis of motor vehicles and arms and ammunition.

Uttar Pradesh.—The sales tax was introduced in Uttar Pradesh on 1st April 1948 and was levied on a multi-point basis with a few exemptions. All dealers with annual turnovers exceeding Rs. 15,000 were liable to the tax. A few months later, a larger number of exemptions were notified. Some of these like cereals, pulses, flour, *gur*, fish, salt, fertilisers, coal, fuel wood, kerosene, *ghani* oil, paper, etc. were exempted completely while some like bones, bullion and specie, army canteens, cotton waste, cooked food, lubricants, raw cotton, hides and skins, medicines and pharmaceutical preparations, tobacco (*hookah*), etc., were exempted on payment of annual fees. Certain articles were made taxable at a single-point only at three pies and six pies per rupee while some others were made taxable at nine pies and one anna per rupee. In September 1948, the latter rates of nine pies and one anna per rupee were brought down to six pies per rupee to bring about greater uniformity in the tax system. More changes in the rates were made in 1952, when biris, matches, jute goods and *khandsari* sugar were made taxable at one point at six pies while cigar, cigarette and pipe tobacco were taxable at nine pies. The rate of tax on crystal sugar has also been raised to six pies per rupee in 1953. Originally, the Uttar Pradesh Sales Tax Act extended to forward contracts in commodities even when such contracts did not result in delivery of goods, but a judicial decision was given that the levy of a sales tax on such contracts is *ultra vires*. The recent amending enactments make only such changes as are necessitated by the Supreme Court's decision on inter-State sales and other judicial decisions. At present, in Uttar Pradesh, there are four types of sales of goods: (i) those exempted from the tax or excluded from the Act; (ii) those which are exempted on payment of prescribed annual fees; (iii) those which are made taxable at three pies per rupee like edible and non-edible oils, tanned leather and diesel oil, or at six pies like biris, cement, mill cloth, sugar, matches, motor vehicles, radios, glassware, etc. or at nine pies like cigars, cigarettes and pipe tobacco; and (iv) those that are taxable at the multi-point rate of three pies per rupee.

Madhya Bharat.—The sales tax in Madhya Bharat is of a selective type and is levied mainly on importers and manufacturers. The tax was levied in 1950 to replace the internal customs duty on imports. The taxable quantum is Rs. 5,000 a year for importers and manufacturers and Rs. 12,000 for others. Sales tax is levied also on sales of goods during fairs and exhibitions. The turnover for this purpose is Rs. 450 per month, instead of Rs. 5,000 a year. The rates of tax

vary from three pies per rupee to two annas per rupee. When the tax was introduced in 1950, the rates were the same as the customs duties on imports; but these were subsequently reduced. Gold and silver ornaments, vegetable oils and tobacco used in making biris are taxed at three pies per rupee; biris, cement, cotton cloth, metals and metal-ware, sports goods, paper, agricultural machinery, etc., are taxed at six pies per rupee; tea, coffee, cigars and cigarettes, silk and silken goods, wollen goods, clocks and watches, motor vehicles, etc., are taxed at one anna per rupee while foreign liquors, arms and ammunition are taxed at two annas per rupee. On a majority of articles, the tax is collected from importers and manufacturers; on only a few commodities is it collected from other types of dealers such as wholesalers or retailers. The exemption list is fairly large and covers essential goods, important raw materials, *ghani* oil, etc.

5. From the foregoing account of the different main features as they have developed in certain typical States, it is clear that along with the growing complexity of the systems also grew the need for all-India co-ordination. Prompted by revenue needs, many States had by 1948-49 started levying taxes on exports. A number of States had so defined the term 'sale' as to include within that term all sales of goods which were actually within the territories, irrespective of the place where the contract of sale took place. Some of the measures involved the taxation of various raw materials and of goods entering inter-State trade more than once; these measures evoked considerable opposition from trade and industry. A number of problems arose and, in order to consider these, the Government of India convened a conference of the Finance Ministers of States in October 1948. After a preliminary discussion, a committee of officials was appointed to investigate the possibility of achieving a certain degree of uniformity in regard to the taxation of inter-State trade in certain essential commodities, raw materials, manufactured articles, etc., which were of all-India importance. The Officials' Committee made certain recommendations which, because of their special relevance, we reproduce below:—

(i) No sales tax should be levied on exports to other States of the following commodities:

Grains and pulses, flour, *atta* and *maida*, matches and kerosene.

(ii) A ceiling of three pies in a rupee should be fixed in the case of the following industrial raw materials exported from one Province to another:

Coal, cement, steel, cotton and cotton yarn, hides and skins, oilseeds, rubber, minerals and jute.

If the sales tax is levied subject to this ceiling by the Province exporting the material, the Province importing it should not charge any further sales tax, if sold to a registered manufacturer for purposes of his manufacture.

(iii) A ceiling of three pies in a rupee should be fixed for the sales tax on the following goods exported from a Province:

Textiles, plant and machinery, vegetable oil products and sugar.

It will be open to the Provinces to levy a higher tax on internal consumption if they like.

(iv) A uniform tax of one anna in the rupee (three pies in the case of bullion specie) should be levied on the following luxury articles:

Bullion and specie, jewellery, refrigerators, motor vehicles, radios, gramophones.

This tax should be levied at the point at which sales take place to the actual user.

(v) No Province should charge any sales tax on a commodity exported by it if on that same commodity it does not levy a tax on its internal consumption.

(vi) No sales tax should be levied on agricultural implements worked by human or animal power.

(vii) In the case of commodities subject to multiple point sales tax, the ceiling prescribed above should apply to the total incidence of the tax.

6. These recommendations were then considered by the Finance Ministers' Conference. While there was general agreement about the principles underlying the recommendations, some of the State Ministers wanted time to consider the proposals in detail. But eventually there was so much disagreement that little could be achieved by way of tangible results. Only a few States gave effect to the proposals. Subsequently, the Drafting Committee of the Constituent Assembly considered this question and proposed the incorporation of provisions in the Constitution restricting the powers of the State Governments in respect of the levy of sales tax in the course of foreign trade and inter-State trade and on essential commodities. These provisions were again considered at a conference of Chief Ministers and Finance Ministers. The proposed provisions were opposed by many States on account of the loss which would be entailed on them by the exclusion of foreign, and (in particular) inter-State, trade from the purview of their sales taxes. The loss, it was clear, would be particularly great for the States which produced important raw materials or manufactured articles. The provisions were, however, finally incorporated in the Constitution as Article 286.

7. Under Entry 54 of the State List in the Seventh Schedule to the Constitution, the States have been empowered to levy "a tax on sales or purchases of goods other than newspapers". This power has, however, been restricted in various ways by Article 286 which reads as follows:—

"286. (1) No law of a State shall impose, or authorise the imposition of, a tax on the sale or purchase of goods where such sale or purchase takes place—

(a) outside the State; or

(b) in the course of the import of the goods into, or export of the goods out of, the territory of India.

Explanation.—For the purposes of sub-clause (a), a sale or purchase shall be deemed to have taken place in the State in which the goods have actually been delivered as a direct result of such sale or purchase, for the purpose of consumption in that State, notwithstanding the fact that under the general law relating to sale of goods the property in the goods has by reason of such sale or purchase passed in another State.

- (2) Except in so far as Parliament may by law otherwise provide, no law of a State shall impose, or authorise the imposition of, a tax on the sale or purchase of any goods where such sale or purchase takes place in the course of inter-State trade or commerce:

Provided that the President may by order direct that any tax on the sale or purchase of goods which was being lawfully levied by the Government of any State immediately before the commencement of this Constitution shall, notwithstanding that the imposition of such tax is contrary to the provisions of this clause, continue to be levied until the thirty-first day of March 1951.

- (3) No law made by the Legislature of a State imposing, or authorising the imposition of, a tax on the sale or purchase of any such goods as have been declared by Parliament by law to be essential for the life of the community shall have effect unless it has been reserved for the consideration of the President and has received his assent”.

In brief, the States are prevented from taxing (i) sales or purchases in the course of trade outside the territories of India, (ii) sales outside the State of levy where these sales result in delivery for consumption of goods in another State, and (iii) sales in the course of inter-State trade and commerce. Moreover, on commodities declared to be ‘essential’ by Parliament, the State’s power to impose the tax has been made subject to the prior approval of the President. To give some time to the States to adjust their sales tax levies, the President was empowered to postpone to the end of March 1951, the date for the coming into operation of the exemption of inter-State trade from sales tax. Under this power, the President promulgated an order extending the period to that date. As a result of the restrictions imposed on the taxation of inter-State trade transactions, there was a large diminution in the sales tax revenue of several States. Firstly, there was a direct loss of revenue from the abolition of the sales tax on exports, the loss being particularly heavy in States like Bombay, Bihar, Madhya Pradesh, Orissa and Assam. Bombay lost revenue to the extent of about Rs. 4 crores, Bihar of about Rs. 2½ crores, Madhya Pradesh, Assam and Orissa of about a crore each. States like Madras, Uttar Pradesh, Mysore and Travancore-Cochin, which have been levying a tax on exports under a multi-point system, also lost their revenue on the last stage of sale in the course of inter-State trade. Secondly, because of these restrictions, there was greater scope for avoidance of tax, entailing an indirect loss of revenue on almost all States. Traders in one State started to sell direct to unregistered dealers and consumers in another. Similarly, consumers of valuable commodities tried to get these from dealers in another State rather than

buy the articles from their local dealers. The practice grew for sales of goods within a State itself to be shown in the books of accounts as having been made to fictitious dealers outside the State and the goods having then been re-sold by those dealers to consumers within the State. For valuable commodities like motor vehicles, jewellery, watches, etc., this practice became very common. On transactions that could be shown to be in the course of inter-State trade, the 'exporting' State was prohibited under Article 286 from levying the sales tax; and if the goods delivered as a result of these transactions were shown to be received by individual consumers or unregistered dealers neither could any tax be levied on them by the 'importing' State. Thus, many of these transactions escaped sales tax altogether.

8. The loss of the revenue resulting from the provisions of the Constitution relating to inter-State trade coupled with the need to find money for the expenditure on developmental activities, compelled the States to resort to various measures to readjust their sales tax systems to the changed circumstances. Different measures were taken by different States. The Bombay State, which all along had a single-point tax and had exempted sales of raw materials purchased by manufacturing industries, changed over to a multi-point tax on the lines of the Madras system, whereunder it levied a tax at all stages of sales including sales of raw materials to manufacturing industries (though in respect of certain important raw materials a lower rate of duty was levied and certain other concessions like taxing at only one stage were also granted). When this system was found unsuitable to its trade and industry, the State devised a two-point system under which the tax is levied at different rates on the first stage of sale and the last stage of sale in the State. States like Bihar and Orissa, continued the single-point system, but withdrew the exemption previously applicable to sales of raw materials to processing and manufacturing industries. In Madhya Pradesh and Assam, this exemption was restricted to raw materials used in manufacturing goods for sale and delivery in the State for consumption within the State itself. The Hyderabad State, which in the main exports agricultural raw materials, imposed a purchase tax on dealers who bought such materials within its territory. By this change in the point of levy of the tax, it in effect taxed the sale of exportable goods, while at the same time adhering technically to the terms of the Constitutional restrictions.

9. When Bombay changed over to the multi-point tax, its new Sales Tax Act was challenged in the Bombay High Court, which held that the Act was *ultra vires* on the ground that it did not take into account the Constitutional restrictions.

**Supreme Court's
interpretation of
Article 286**

The Bombay Government promulgated an ordinance to satisfy the legal requirements and keep alive the sales tax on the multi-point basis, and also appealed to the Supreme Court against the decision of the Bombay High Court. Earlier, the Travancore-Cochin Government had also appealed to the Supreme Court against their High Court's decision that the Constitutional restriction relating to "sales or purchases in the course of export or import out of the territories of India" covered not only the first purchase in the course of import and the last sale in the course of export, but all intermediate transactions, and that, accordingly, all such transactions

were exempt from the State sales taxes. In deciding the appeal filed by the Travancore-Cochin Government, the Supreme Court ruled that "whatever else may or may not fall within Article 286 (1) (b), sales and purchases which themselves occasion the export or import of goods, as the case may be, out or into the territory of India come within the exemption". In the other appeal, the Supreme Court decided that "Article 286(1)(a) read with the Explanation prohibits taxation of sales or purchases involving inter-State elements by all States except the State in which the goods are delivered for the purpose of consumption therein. The latter State is left free to tax such sales or purchases which power it derives not by virtue of the Explanation but under Article 246(3) read with Entry 54 of List II". This decision of the Supreme Court has been interpreted by the State Governments as giving them power to tax non-resident dealers on their sales of goods to consumers or dealers within their respective territories. Several States issued notices for payment of tax to dealers in other States. They also demanded that all the exporting non-resident dealers should get themselves registered under their own Sales Tax Acts and submit returns of their transactions, should make periodical payments and should have their tax assessed in the same manner as the registered dealers within their own territory. This created difficulties for the trade and industry, as it meant that an exporting dealer had to register himself and be liable to the tax not only of his own State but also of all the States to which he exported his goods. On account of the very great trouble and inconvenience entailed by this procedure on the despatching dealers, particularly of States in which big distributive centres were situated, acute dissatisfaction was created among trading circles, and several representations were made by Chambers and Associations and other representative bodies of trade and industry to the State Governments and to the Government of India.

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10. For examining the various representations made to them, and in particular for considering how best the grievances of the trading interests could be met consistently with the interpretation of Article 286 by the Supreme Court, the Government of India convened a conference of officials in November 1953. It was generally agreed at this Conference that the importing States should not insist upon the non-resident dealers to present themselves at the various State headquarters to get their books of accounts examined and to have their liabilities assessed, but should assess the liability on the basis of the returns which these dealers would supply from the places where they carried on business. Where such a course was necessary, it was agreed that the receiving State should depute one of its own officers to the State where the non-resident dealers resided and get the points in dispute settled. For purposes of check and verification, it was decided that each State should supply to the other States the names of dealers who exported their goods to other States and claimed exemption from its sales tax; as a long term solution, the proposal was also put forward at this Conference that instead of the non-resident dealers being taxed by the importing States, a purchase tax could be levied by those States on the dealers in their territories when the goods were delivered to them in the course of inter-State trade

This, it was urged, would confine the tax operations of each State to traders resident within its boundaries and obviate the inconvenience caused to non-resident dealers by the efforts of importing States to collect the sales tax from them. While the reciprocal arrangements for the supply of information have been agreed to by most of the States and are being implemented, not all States have agreed to the proposal regarding the introduction of a purchase tax. Prominent among the States to which this proposal has not been acceptable are Bihar and Assam. Bihar has pointed out that "pattern and organisation of the trade in the State is such that any shifting of the incidence from the seller to the buyer would at once create insurmountable difficulties", while Assam considers that a purchase tax "will not confer on Assam the full benefits she is entitled to". A purchase tax may not yield to these States the same revenue as a tax on non-resident dealers for the reason that in the case of several of their raw materials like tea, coal, etc., there are no intermediate purchases by internal wholesalers but only direct sales to other States. Multi-point States like Madras are also opposed to the proposal to levy purchase tax. They point out that by taxing non-resident dealers they are able to get an additional stage of sale on which to levy the tax. Thus they are able to make up to some extent the loss that has occurred through the exemption of sales at the last point in the course of inter-State trade. If, however, they levy a tax on the purchases made by internal dealers, the tax would have to be levied on the same dealer first on his purchases and again on his sales which under their existing sales tax structure is not permissible. The present position regarding the levy of a purchase tax is therefore still uncertain; and the States have started recovering the tax from non-resident dealers by making them liable to registration under their own Sales Tax Acts. This liability was made retrospective by some States, i.e., payments were called for in respect of sales from 26th January 1950, the date on which the Constitution came into force. It was agreed at the Officials Conference that the tax should not be recovered with retrospective effect from any date prior to 1st April 1953; some of the States have even fixed a later date, viz., 1st January 1954, as the date of commencement of this particular levy. Certain State Governments have already opened offices in other States for the collection of returns and taxes from non-resident dealers.

11. Besides prohibiting States from levying any tax on sales or purchases of goods in the course of foreign trade, on sales or purchases of goods delivered in another State for consumption therein and on sales or purchases of goods in the course of inter-State trade or commerce, the Constitutional provisions also enjoin it on the States not to tax sales or purchases of goods declared by Parliament by law to be essential for the life of the community, except with the previous assent of the President. Parliament has already enacted the necessary law, viz., Essential Goods (Declaration and Regulation of Tax on Sale or Purchase) Act, 1952, and the following goods have been declared as 'essential' for the life of the community:—

- (1) Cereals and pulses in all forms, including bread and flour, including *atta*, *maida*, *suji* and bran (except when any such article is sold in sealed containers).

- (2) Fresh and dried fruits, sugarcane, cocoanuts, vegetables, edible tubers, vegetable and flower seeds, bulbs and plants, excluding orchids [except
 - (i) any medicine prepared from any one or more of such articles; and
 - (ii) when any such article is sold in sealed containers.]
- (3) Fresh milk, whole or separate, and milk products, including butter, *ghee*, *chana*, *khoa*, but excluding sweetmeats.
- (4) Meat, fish and eggs (except when any such article is sold in sealed containers).
- (5) Edible oils, and oilseeds from which edible oils are extracted.
- (6) *Gur*.
- (7) Salt.

- (8) All cloth, woven on handlooms, coarse and medium cotton cloth made in mills or woven on powerlooms.

Explanation 1.—‘Coarse cloth’ means any cloth in which the count of warp yarn employed (excluding the border) is below 17s. (whether single or folded).

Explanation 2.—‘Medium cloth’ means any cloth in which the count of warp yarn employed (excluding the border) is 17s. or finer but is less than 35s. (whether single or folded).

- (9) Raw cotton, including ginned and unginned cotton or *kapas*, cotton thread, cotton yarn, cotton seeds, jute seeds, raw jute, sun-hemp and *mesta*.
- (10) Hides and skins.
- (11) Fertilisers and manures, agricultural machinery and implements, including parts of such machinery and implements.
- (12) Cattle feeds.
- (13) Coal including coke and other derivatives, petroleum and petroleum products, including kerosene and motor spirit.
- (14) Iron and steel.
- (15) Books, exercise books, slates and slate pencils and periodical journals.

12. It is obvious that the object of restricting the power of the States to levy a tax on the sale or purchase of ‘essential goods’ is to achieve some degree of uniformity in the tax burden on those goods, and not necessarily or in all cases to eliminate altogether the sales tax on such goods. When the Bombay Government sought the assent of the President to tax some of the ‘essential goods’ under their new multi-point tax system, the assent was given on condition that the tax burden on these goods should not in any event exceed the previous tax burden under the single-point system. This seems to indicate that the policy underlying the restriction is one of freezing the existing tax levies on these goods and of ensuring that new proposals to tax them are confined within reasonable limits. (Some proposals of this kind have actually been sanctioned). On the whole, however, both the

provision and the list of 'essential goods' have evoked a great deal of criticism from State Governments. Firstly, the States which taxed these goods prior to the coming into effect of the Constitution and the Parliamentary enactment are at an advantage as they are unaffected by this restriction, while the States which now attempt to tax them must obtain the assent of the President. Secondly, the list of 'essential goods' includes goods which cannot, except by a wide interpretation, be regarded as 'essential' to the life of the community. The dissatisfaction has been aggravated by the fact that on some of the goods declared essential to the life of the community the Central Government themselves levy relatively high taxes in the form of excise or customs duties.

13. Having reviewed in some detail the changing features of the sales tax systems of certain States, as also the administrative and constitutional developments which have taken place, we are now in a position to sum up the main trends and to relate them to the different conditions in which those systems have originated or to which they have adapted themselves. The relevant factors are many. First of all, there is the extent of financial need which the particular sales tax system is designed to meet. Secondly, the period in which the need has arisen may be one of relatively low prices coupled with a buyer's market (as in 1939 when Madras introduced the tax) or one of high prices and inflation (as when Bombay and a number of other States adopted the sales tax as one of their more important fiscal measures). Thirdly, there can be discerned in each State a definite degree of relationship between the tax system initially adopted and certain relevant characteristics of the economy of the State. These characteristics may be described as the pattern of consumption, the pattern of trade and the pattern of production in the State. Fourthly, apart from the origin of the tax system in different States, the later developments of the system have an intelligible connection with the further financial needs experienced by the States in the context of increased expenditure (e.g., on account of the Five-Year Plan) or decreased revenue (e.g., on account of Prohibition) or some other occasion for radical financial re-adjustment (e.g., merger and integration). Fifthly, certain types of alteration in the tax system common to different States are seen to be attributable to the State Governments' efforts to adapt their tax to new conditions, legal and other, created by the Constitution. Accordingly, with reference to the development of the main systems, the present summing up may be related to (i) the origin of the system, (ii) the adaptation of the system to growing financial needs, and (iii) the adaptation of the system to conditions created by the Constitution.

(i) *Origin of the system.*—We have alluded to there being in some instances an implicit relationship between initial choice in favour of a particular system of sales tax, viz., the one originally adopted by the State, and the pattern of consumption, trade and production in that State. We would recall in this connection one of the distinctions we have drawn in Chapter I between the multi-point and single-point systems. The former, we said, may be regarded as having been occasioned by the decision of Government to collect the tax from a large number of dealers, big, medium and

small, and on a large number of articles, including what are relatively essential, and at the same time to charge so low a rate that it will not constitute a serious hardship even if the tax is paid more than once on the same article. The single-point tax, we stated, may be said to follow from a different kind of decision: to levy the tax at a relatively high rate, to exempt essential articles like foodgrains and cheap cloth, and to place the liability for the tax on a limited number of dealers who may be described as large and medium. In very broad terms, it may be said that a single-point tax is specially appropriate in relation to urban conditions, and the multi-point tax to semi-urban and rural conditions. A number of other factors too would of course have to be taken into account. Madras, which was the first State to levy a sales tax, may in retrospect be said to have adopted the multi-point system mainly because of a combination of the following factors: a predominantly rural economy, low prices and a buyers' market (1939), and financial needs which at that time were not great. Bengal adopted a single-point system in 1941 in the context of a large urban trade and consumption, predominant industrial and manufacturing interests, and a period of rising prices. Bombay adopted the Bengal system in circumstances which were broadly analogous. Uttar Pradesh, which presents certain mixed features, adopted a combination of the two systems. Some of the States which followed, levied the tax as an anti-inflationary measure, while others levied it to meet the increasing cost on developmental activities or to replace (in the case of certain Part B States) internal customs. These States have in some instances followed the system of the neighbouring States where economic conditions were more or less similar.

(ii) *Adaptation of the system to growing financial needs.*—While initially the systems of sales tax were designed to suit relatively modest revenue needs—together with the prevailing economic conditions and the patterns of consumption, trade and production—they were adjusted, modified and altered to conform to changing circumstances and growing revenue needs. Madras which levied the multi-point tax started with the low rate of half per cent.; and thereafter even reduced it to quarter per cent. During the War, however, the rate was increased to one per cent. Still later, in order to meet new liabilities, the rate was changed to three pies in the rupee, and certain 'luxury' goods were charged a higher rate (at the first point of sale) in addition to the ordinary one thus enhanced. Most States adopted higher rates for specified luxury goods. Further, their increased revenue needs drove Bihar and Bombay to extend the levy to inter-State exports at half the rates on internal sales; when this came to be prohibited by the Constitution, Bihar withdrew the exemption on sales of raw materials to producers and processors within its State and imposed a tax on foodgrains, while Bombay changed its system to a multi-point tax at the rate of three pies in a rupee (yielding a total tax of about nine pies per rupee against its previous rate of six pies per rupee). Recently, as we have seen, Bombay has again changed its system to a double point tax, with the total rate of tax related to a level of nine pies in the rupee. Assam, Punjab and Orissa, which had a low rate of tax to start with, increased their rates. The other States started with a high rate of tax or where they had a tax only on certain selected goods (Hyderabad, Saurashtra) changed it to a general tax covering all goods other than those specifically exempted.

(iii) *Adaptation of the system to conditions created by the Constitution.*—The prohibition imposed under the Constitution on the powers of the exporting States to levy a sales tax on goods sold for consumption in another State has affected the revenues of most of the States, particularly those producing raw materials and manufactured goods. The loss was not as great for multi-point States as for the single-point ones; this was because the restriction did not apply to sales in the State prior to the last point of sale for export. Further, the Constitutional provision took no cognizance of the registered dealers; it equally extended to purchases by registered dealers, unregistered dealers and consumers. This, as already mentioned, gave rise to large scale evasion, since inter-State sales to unregistered dealers and consumers escaped the taxation of the importing State no less than that of the exporting State. In order to make up the loss which resulted, in part directly and (through the evasion thus made possible) in part indirectly, from the Constitutional restrictions, different States have adopted different measures. Punjab has withdrawn the minimum limit of taxable liability for importers, with the result that every importer whatever the value of his imports is now liable to the sales tax. Hyderabad has levied a purchase tax on the purchases of raw materials by the exporters. The Madhya Pradesh Government have, by an amendment of their Sales Tax Act, withdrawn, except in the case of cotton, the exemption on sales of raw materials used in the manufacture of goods sold outside their area. Bombay has levied a purchase tax on goods brought from outside by its unregistered dealers and consumers, though for the present this tax is imposed only on motor vehicles and arms and ammunition. Assam has recently imposed a carrier tax on tea and jute which are its main exportable raw materials.

14. Judicial interpretation, as in its turn interpreted and understood, has introduced further complications. On the basis that the right to levy the tax accrues to the State where the goods are delivered for consumption, the importing States have held themselves entitled to collect the tax from non-resident dealers. With Bengal as one of the notable exceptions, practically all States have started levying taxes on non-resident dealers. In some States (e.g., Bombay), a purchase tax has been imposed on the internal buyers of certain external commodities, e.g., a mill purchasing cotton from outside the State.

15. The different measures undertaken by the States to adapt their sales tax systems to their growing revenue needs, to the restrictive provisions of the Constitution and to the conditions resulting therefrom have made these systems very complicated. The high rate of tax in multi-point States has to a certain extent affected the structure of trade, e.g., by tending to eliminate intermediaries; and it has, in some instances, even involved loss of revenue to those Governments. The Travancore-Cochin Sales Tax Committee's Report emphasises this feature and suggests the levy of a single-point tax at a high rate on certain selected goods. Further, the high rate of tax has necessitated the grant of a large number of exemptions even under a multi-point tax (e.g., Mysore, Travancore-Cochin), making the maintenance of accounts difficult for the small dealers. Since the cost of production

Collection of tax from non-resident dealers

Effect of changes in Sales tax measures on trade, consumer and Government

increased on account of a high rate of levy at every stage, these States had either to levy reduced or 'concessional' rates on the relevant commodities or make them liable to the tax at only one point. In the single-point States: (i) the levy of tax on raw materials as in Bihar, (ii) the increase in the rates from six pies to nine pies as in Bengal or Orissa, (iii) the extension of the liability to all importers without any minimum limit as in the Punjab, and (iv) the taxing of raw materials used by industries and the varying rates of tax on different goods under the two-point system in Bombay, have all combined to increase the cost of production, to enhance the burden on consumers and to multiply the difficulties of the dealers from whom the tax is collected. Further, as regards the dealers, the measures taken by the importing States to exercise jurisdiction on those resident in other States have greatly added to their harassment. It is these factors that have been responsible for the growing agitation for the removal of the sales tax from the field of State taxation. They have also given rise to large scale evasion of tax by dealers and by consumers, and to malpractices and corruption in the departments responsible for collecting the tax. These and other problems have occasioned various suggestions with regard to the sales tax. We examine some of the suggestions in the next chapter.



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CHAPTER III

EXAMINATION OF CERTAIN SUGGESTIONS

The suggestions which have been put to us in respect of the sales tax some of them in the context of specific issues raised in our questionnaire, cover a range which is both wide and varied, even if it does not include much that can be said to be unfamiliar. We need refer only to the more important of these suggestions. At one end, they are concerned with the possible enlargement of the scope of the sales tax with a view to increasing the revenue from it. At the other, what is proposed is the virtual abolition of the sales tax through the taking over of some of its functions by different taxes which have existed long before the sales tax itself: in particular, customs, excise and octroi. Between these two extremes are different proposals for modifying the present systems of sales tax so as to secure that the levy is simple, evasion less, and hardship to the dealer reduced to a minimum. An aim that is common to many of the suggestions is to ensure better co-ordination between the States and, through such co-ordination, to eliminate the difficulty now experienced on account of the attempts of State Governments to collect the tax from non-resident dealers. Not a few of our respondents appear to entertain the belief that some one system must somewhere exist which, if searched for and found and then installed in place of the variety of levies that now obtains in the States, will have the two-fold effect of remedying all the ills and of retaining all the revenue. Among the systems thus advocated for universal adoption are a selective sales tax, a "first stage" sales tax, a low multi-point tax, and a purchase tax. Finally, there is the proposal that the sales tax should be removed altogether from the State List and placed within the purview of the Union; we reserve the consideration of this particular proposal for the next chapter, in which we examine the place of the Union in the system of sales taxation as it has developed in this country.

2. We may start by examining the proposals for either enlarging the scope of the sales tax or for ensuring a larger revenue from it. Under the Constitution, as has been noted before, the State Governments can levy a tax on "the sale or purchase of goods other than newspapers." Services, contracts for sale not resulting in delivery of goods (e.g., transactions in futures markets) and sales or purchases of newspapers are therefore excluded from the scope of the States. The Central Government can levy a tax (other than stamp duty) on transactions in futures markets. It can also levy a tax on sales or purchases of newspapers and on advertisements appearing therein. None of these taxes has so far been levied by the Central Government. Sales of services are not specifically liable at present to be taxed either by the States or by the Central Government. The advisability of extending the sales tax to one or more of the items thus left out has been suggested by some, though it has not found any wide support.

3. Taking 'services' first, these can be divided into: (i) services proper, (ii) those entering in a special manner into the making of certain classes of goods, and (iii) those forming part of a total transaction which includes the rendering of services as well as the sale of goods.

Feasibility of sales tax on 'services'

There would be serious administrative difficulties in the levy and collection of a tax on specific services from those who render them. Sales of services are not in all cases covered by written documents. Evasion would therefore be easy. Where the same persons sell both services and goods and the tax rates are different, assessment would be difficult. Moreover, taxes on services would, in many cases, be a duplication of profession tax. For these and other reasons, almost all the States are opposed to the extension of the sales tax to services proper. We agree with them and do not recommend the extension of the sales tax to services.

The second category purports to cover goods such as paintings, photographs, etc., the sale of which obviously falls within the definition of 'sales of goods'. The only distinguishing feature is that in certain instances the sale value of such articles is to a larger extent related to personal skill or other specialised nature of the services which have gone into its making than is the case with the generality of articles. At the same time, there are hardly any goods bought by the consumer into the making of which some degree of service or skill does not enter, and it is obviously difficult to draw a distinction between 'ordinary' articles and 'special' articles on the basis of the degree of service or skill which has entered into their making. In practice, certain States exclude special categories such as photographers, etc., from the scope of the sales tax. We consider it unnecessary to make any specific recommendations in this context.

The third category may be illustrated by a bill from a hotel which covers both food and services or by a building contract in which the charges made cover the value of services as well as the cost of materials. In such cases, the only difficulty which presents itself is that of separating the charges for goods sold from all other charges. For this purpose, different formulæ for varying contexts are adopted by different States and we consider the position to be generally satisfactory.

4. It has been held by the Uttar Pradesh High Court that State Governments have no power to tax transactions in the forward markets which do not result in delivery of goods and therefore do not result in a 'sale'. Irrespective of the legal position, we consider that the levy of a stamp duty would be a more appropriate way of taxing these transactions than a tax on sales. We also consider that the stamp duty is best recovered through the clearing house which every important forward market keeps or, if it does not, ought to be made to maintain. We deal with this subject at greater length in the chapter on Stamp Duties. Briefly, it would be impracticable to keep track effectively of individual transactions and of the parties to the individual transactions without the intervention of an organised clearing house. Moreover, the transactions in the forward market are not comparable to sales of goods in the ready market—the transference of risk through repeated sales and purchases without actual delivery is one of the main characteristics of many of these

Sales tax on transactions in forward markets

markets—and the rate of taxation on the resultant turnover would have to be so low as to make the levy itself wholly dissimilar to the sales tax as it is ordinarily operated.

5. Turning to the proposed levy of tax on the sale of newspapers and on the sale advertisements which appear in them, we may note that, prior to the passing of a repealing enactment by Parliament under the powers vested in the Union by the Constitution, newspapers were subject to a sales tax in Madras, while advertisements in newspapers were taxed in the Bombay State. It is of course only the Union that can now levy either of these taxes. While the exercise of this power need not be ruled out for all time, there are certain considerations which arise from the present stage of development of the Press in this country and which have to be taken into account. There are many newspapers with relatively small circulation. To this category belong most of the newspapers which are published in the regional languages of the country. A sales tax would entail on these a degree of hardship disproportionate to the revenue; so would an advertisement tax to the extent that an increase in advertisement costs might be expected to have the effect of diverting advertisements from this class of newspapers. It would, therefore, be reasonable to postulate that a large variety of newspapers would have to be exempted from sales tax and advertisement tax in the event of these being levied at the present time. The exemptions will add to the difficulties of administering the tax. In any case, and apart from these exemptions, the revenue itself is hardly likely to be substantial, since various considerations relevant to the present condition of the Press in India would necessitate relatively low rates of levy. On the whole, therefore, we are of the opinion that the proposed sales tax and advertisement tax on newspapers would not, at this stage, be worth the fairly widespread opposition which may be expected and which *ex hypothesi* will be vocal.

6. We proceed to a discussion of some of the alternative schemes of sales (or purchase) tax suggested in replacement or modification of the existing systems. It has been urged by some that the bulk of the receipts from the sales tax is derived from a few important commodities, and that it should be possible to derive the same revenue by restricting the levy of the tax to these specific commodities. This, it is urged, would make a relatively small number of traders liable to the tax and leave the majority of them free from the inconveniences and difficulties arising from the imposition of the tax on their sales. An analysis of the receipts according to commodities for a few States for which the information is available indicates that it would not be correct to assume that only a small number of dealers would be involved if the tax was confined to the principal commodities from which it is derived. In Madras, the items which yield the largest revenue are paddy and rice (Rs. 164 lakhs), provision stores (Rs. 132 lakhs) and mill cloth (Rs. 139 lakhs). In Mysore, the main receipts are from provision stores (Rs. 21 lakhs), cotton cloth (Rs. 19 lakhs), oil-seeds and vegetable oils (Rs. 7 lakhs), coffee (Rs. 4 lakhs), and hand-loom cloth (Rs. 4 lakhs). The figures for Orissa are: coarse and medium cloth

(Rs. 18 lakhs), cotton and cotton yarn (Rs. 4 lakhs), and vegetable oils (Rs. 3 lakhs). The dealers who trade in these articles are spread over both urban and rural areas. If the tax was collected from them alone, therefore, the number of traders who would have to be registered would by no means be small or compact, nor would it be possible to claim for the resulting system that the burden of tax compliance was placed on those most able to bear it. Further, the restriction of the tax to a few selected articles of common consumption would, from the point of view of revenue, make it necessary to levy the tax at a high rate. To that extent, the incidence on the less well-to-do classes would be higher and the tax system more regressive than at present. On the other hand, a general sales tax, either multi-point or single point, would cover both a wider range of commodities and a larger number of dealers than a selective sales tax of the type suggested; in consequence, as compared with the latter, the general sales tax would in point of rate be lower and in point of incidence less open to objection.

7. It is necessary to give somewhat more detailed consideration to the suggestion that what has been termed the 'first stage single-point tax' should be introduced in replacement of the existing systems. Foreign experience is sometimes cited in support of this proposal.

In certain countries, and in particular where the sales tax is levied by the Central or Federal Government of the country, the tax is often collected from the importers, manufacturers and wholesalers, e.g., Australia, New Zealand, Pakistan, Canada (Dominion sales tax) and U.K. (purchase tax). One advantage of such an arrangement, where the organisation of the trade as a whole makes it feasible, is that the tax can be recovered from a small, compact and readily supervisable body of dealers. The dealers, moreover, would be those best able to maintain the requisite records and accounts, even if the requirements were relatively complicated. Further, the consumer himself is not brought face to face with the tax as much as under a retail sales tax system where it confronts him every time he makes a purchase. In India, it is only in Madhya Bharat that the tax is levied at the first point, i.e., on the manufacturers, importers and wholesalers. Elsewhere, as we have seen, it is variously levied at all stages or two stages and, when levied at only one stage, this is usually the retail stage of sale.

8. The first-point tax, to be effective from the point of view of revenue, should be one which covers, directly or indirectly, an adequate segment of the totality of sales transactions. It is not necessary, of course, that every transaction should be brought within the operation of the tax; those pertaining to articles which may be ignored for revenue purposes (either as unimportant or as included among those exempted) may in any case be left out of consideration; but the majority of other transactions should be within the radial ambit of collection at the first stage. It is evident that this can happen only where the bulk of trade and business in the relevant articles is so organised that it 'fans out' from a few big manufacturers, importers and wholesalers. In other words, the retail trade must get its supplies of goods almost entirely from such manufacturers, importers and wholesalers. These conditions will be found only in

those countries in which both production and imports are large scale and organised. Where, on the contrary, production is medium or small scale, the points of production and import are relatively diffused, and trade for its part shares more or less the same characteristics, the first-point tax on manufacturers, importers and wholesalers would leave a large number of small producers and small traders outside the tax orbit and the revenue realised from the sales tax would be small. This difficulty would be so great as to make such a tax unworkable even if it was the Central Government that collected the tax; it would be much greater for the State Governments which, each within its own territory, would have to deal with one arbitrary part of the total organisation of production, import and distribution.

9. In view of the insistence with which the first-stage tax is advocated by those who regard it as a cure for the ills of the sales tax, it is desirable to examine in somewhat greater detail its different implications as well as its suitability to Indian conditions. The principal advantage that is claimed for the first-stage tax is that it renders administration easy as the tax-payers are smaller in number and more capable of complying with the requirements of the tax authorities. While this may be true of certain other countries—in Canada, it is estimated, a retail sales tax by the Dominion Government would have covered 250,000 dealers whereas its present tax covers only 34,000 dealers—it is not of valid application to conditions in this country. If the States in India were to adopt the first-point tax, the reduction in the number of dealers liable to tax would not be anywhere near being as substantial. A statistical analysis for Bombay, for example, has shown that in 1949-50, out of 62,145 registered dealers, 24,863 were retailers while as many as 37,282 were producers, manufacturers and importers. The suitability of the first-stage sales tax for that State was examined by the Bombay Sales Tax Enquiry Committee, 1946. The Committee says:—

“A tax on producers, manufacturers or importers will, it is pointed out by its advocates, be easy to collect and will not involve any hardship to them. They point out that there will be a fewer number of such dealers to assess for the Sales Tax Department and the dealers being organised and well staffed, will not feel the burden of maintaining the additional accounts necessary for the tax. In our opinion, it will not be correct to say that all producers or manufacturers are organised and well staffed. There will be numerous small manufacturers and producers who are neither organised nor well staffed. There are workers in handicrafts, manufacturers of articles used in large industries etc., who would be liable to pay tax under this system and who would find the necessity of maintaining accounts to suit the tax requirements at least as irksome as small dealers. Further, the work of the Sales Tax Department in checking evasion will not in any way, be easier. In the case of importers, the scope for evasion will be particularly large, as imports would not only be by rail or steamer, but also by road, through postal delivery or by coastal traffic. Moreover as most of the retailers themselves import some goods or other from abroad or

from neighbouring Provinces or States, they would be liable to pay tax and have to maintain separate accounts of such imports. Accordingly the number of dealers to be assessed will not be as small as the advocates of this system suppose it to be. It is evident therefore that under this system of taxation, there will not be much relief either to the dealers, or to the Sales Tax Department."

10. Moreover, the first-point sales tax has certain disadvantages **Disadvantages of a first-point sales tax** as compared with a single-point tax such as is usually collected from retailers:—

- (i) If the goods sold by the importers and manufacturers pass through one or two additional stages before they reach the consumer, the effect of the tax will be cumulative; as the margin of traders' profit varies from commodity to commodity, the incidence of the tax on the final price to the consumer will vary according to this margin.
- (ii) Where the 'wholesaler' sells not only to retailers, but also direct to consumers, there will be disparity between the prices he charges to the consumers and those which the retailers charge.
- (iii) A single-point (retail) sales tax can be made applicable to a larger number of dealers and goods than the first-point tax. In terms of obtaining the same revenue, therefore, the rate of the first-stage has to be much higher than that of the single-point levy. To that extent it provides larger incentive for evasion.

11. A first-point sales tax, therefore, is not a suitable form of sales taxation for general adoption in this country. It has however certain limited uses as a part of, or in combination with, the other systems. Madras, Mysore, Uttar Pradesh and Bombay either levy a first-point tax or charge specially high rates on 'luxury' goods. The Bengal Government have recently introduced a first-stage sales tax on cigarettes, in replacement of the retail sales tax, in order to reduce evasion. According to the State Government, the extension of this tax to other articles will be possible only if the following conditions are satisfied by the particular commodity:—

Suitability of first-point sales tax in certain cases

- (1) it is not a raw material;
- (2) the manufacturers and importers are not too many in number and are generally such well-established parties that they cannot easily disappear;
- (3) if the commodity is exported out of the State, the manufacturers should themselves be the exporters, as far as possible; and
- (4) the imports, if any, should be so canalised as to admit of effective checks.

The conditions mentioned by the Bengal Government point to the same conclusion as we have indicated, viz., that only a limited use can be made in this country of the first-stage single-point tax.

12. It remains to mention in this context the special case of 'petrol tax', which in some respects is a variant of the first-stage tax at one point. The tax on petrol is imposed by a separate measure of sales taxation in most States, and the rate of the tax is much higher than that of the ordinary sales tax, being as high as six annas per gallon in many States. The suggestion is sometimes made that other articles should be selected for specific treatment analogous to that accorded to petrol, including a specially high levy. The essence of the petrol tax, from the point of view of system of levy, is that it is collected from wholesalers or from retailers, but not from both. In either case, of course, the points of distribution of petrol are well defined, relatively few and readily controlled. Further, there are special reasons why a rate of tax significantly higher than even the 'luxury' rates of sales tax has been practicable in respect of petrol. If a similar tax is to be levied on other commodities, they must satisfy certain requirements which petrol happens to fulfil. These conditions may be said to be as follows:—

- (1) the article must be one which is channelled through a manageable number of dealers all of whom are in a position to keep the requisite accounts, give vouchers and so on;
- (2) it must not be one which is partly channelled through dealers of the above description and partly through others (who cannot maintain the accounts, give vouchers, etc.);
- (3) it must not be one which the consumer can readily buy outside the State of his residence, thereby avoiding or evading the tax or paying instead the lower tax of another State; and
- (4) it must be one which can 'bear' the tax which, for the special arrangements to be worthwhile, would have to be a relatively high tax.

Petrol, at one extreme, is almost a 'pure' example of an article which satisfies these requirements. Hardly any other article fulfils them in the particular conditions of import, production and distribution of this country; hence the need to fall back on the General Sales Tax for the larger part of the revenue derived in this context by State Governments.

13. We may now consider briefly the suggestion that a low multi-point tax might suitably be adopted by all States in replacement of their present systems. It is claimed that this will bring broadly the same revenue as at present to State Governments, while at the same time substantially reduce the difficulties now experienced by the trade. This proposal has in particular been urged by the retail dealers of States which levy a single-point tax. A low rate extending to all commodities without exception would no doubt make the accounts much simpler and to that extent be of great advantage to small dealers. Revenue and administrative considerations, however, make this suggestion unacceptable. A low rate— $\frac{1}{4}$ per cent. is what has been usually suggested by the sponsors of the proposal—will not, even if it is made applicable to all commodities, give the States the revenue which they now derive. The assertion to the contrary made by those who put forward this proposal is based on the assumption that most commodities change hands four times in the course of trading before they reach the consumer. This

is certainly not true of foodgrains, for example, or of the products of animal husbandry, fisheries and small enterprises. We may refer to what the Madras Government have pointed out in defence of the sales tax it levies on foodgrains, *viz.*, that for the larger part the cultivator consumes what he grows on his own field and that there are not more than two stages of sale before the foodgrains (other than imported ones) reach the urban consumer. Nor do other goods including 'luxury goods' usually pass through the four stages of sales assumed by the supporters of the proposal. Moreover, it would be inequitable to levy the same rate of tax on essential commodities like foodgrains on the one hand and on goods such as motor vehicles and radios, on the other. Further, the proposal in the form in which it has been put forward involves the extension of the tax and, therefore, of registration, etc., to agriculturists and other primary producers in the rural areas, and to hawkers and other small or itinerant dealers in the urban areas. Since administratively this would be so formidable as to be wholly impracticable, exemptions would have to be given in respect of certain classes of commodities and the turnover limit so fixed as to exclude several classes of sellers. If this is done, and at the same time the present level of revenue sought to be maintained, the rate of levy would need to be much higher than $\frac{1}{2}$ per cent. The Madras Government, for example, which, of all the States, have the smallest number of exemptions and exclude from the purview of the tax all dealers with a turnover of less than Rs. 10,000 a year, obviously cannot obtain from a multi-point tax of $\frac{1}{2}$ per cent. the revenue which they now get on the basis of a rate of three pies in the rupee, or roughly $1\frac{1}{2}$ per cent. A wide coverage for the sales tax is definitely an advantage, and we shall in a later chapter revert to this consideration; but the imposition of a multi-point tax of $\frac{1}{2}$ per cent. on all commodities and on practically all those who sell is clearly not a valid solution if put forward as a *complete substitute* for the existing systems in multi-point or single-point States, though it may well play a significant role as one of the complementary features of a reorganised system of sales tax.

14. The proposal that States should substitute a purchase tax for their present system of taxation of sales requires **Suggestions for a purchase tax** more elaborate examination. This suggestion has been made by several representatives of trade and commerce. It has been discussed, as already mentioned, at a conference of officials, including State representatives, which was held in Delhi in November 1953. Apart from the claim put forward by some of those who replied to our questions that the purchase tax is a more 'rational' system than the sales tax, the chief object of the suggestion, in the form in which it is put forward by trade associations, is to solve the difficulties arising from the levy of the tax on non-resident dealers. It is stated that this serious problem would be solved within the existing framework of the Constitution if each State levied a purchase tax on its own dealers and consumers and did not attempt to collect it from dealers resident in other States. For a brief description of the main features of the purchase tax, we invite reference to Chapter I. In considering this tax in connection with the problem of tax levy on non-resident dealers, we have to bear in mind that, for the most part, it is of course the 'importing' State that is interested in a purchase tax because (a) it is within its jurisdiction that the purchase has taken place and (b)

under the Constitution, it is the fact of delivery and consumption that gives a State a right to levy the tax. This levy may be either on raw material or finished goods. It may also be on dealer or consumer. So far as the latter is concerned, however, a purchase tax is practicable only in very limited contexts, e.g., purchase of motor cars or other conspicuous and readily detectable articles. A consumer's purchase tax has been adopted by certain States for articles of this kind when bought from dealers of other States; but its limited application makes it a very negligible source of revenue.

15. The suggestion that the States should levy a purchase tax on their own dealers, who have bought the goods rather than on the non-resident dealers who have sold them, may seem attractive; but it has many serious limitations. Where the non-resident dealer has sold goods to a registered dealer of the consuming State, a sales tax on the goods will later be recovered from the resident registered dealer. The purchase tax is therefore of no advantage from the revenue point of view. At the most it can only assist by enabling a check to be exercised at the purchase end of the resident registered dealer's transactions. Where the non-resident dealer sells to an unregistered dealer or a consumer of the importing State, a purchase tax on the resident unregistered dealer, since he is outside the administrative arrangements for collection, is *ex hypothesi* impracticable. A purchase tax on the resident consumer has only a limited use as already explained. It follows from the above that a purchase tax on resident registered dealer or consumer is much less attractive from the point of view of the importing State than an extra-territorial sales tax on the non-resident dealer. In the latter case, especially if sufficient co-operation is forthcoming from the Government of the despatching State, it will be possible to collect the tax not only on transactions with resident registered dealers but also with resident unregistered dealers and resident consumers. That is why most States which have assumed such jurisdiction are unwilling to give it up. This applies in particular to States which have little by way of distributive trade within their own territories, e.g., Assam, Bihar or even Madras. These States find it more convenient, and from the revenue point of view more profitable, to go to the non-resident distributive trade situated in places such as Bombay and Calcutta. On the other hand, if we consider the States of Bombay and Bengal, which have large and important sections of distributive trade as well as high and medium grade consumption within their own territories, we find that Bengal is opposed to, and Bombay is not enthusiastic about, the expedient of one State Government extending its jurisdiction to dealers of another State and attempting to collect the tax from them. On certain raw materials, for example, Bombay is content to impose a purchase tax at the point at which these are bought by the importing dealer or manufacturer; so far as finished goods are concerned, it imposes the purchase tax more by way of a check at the buying end than as an alternative form of tax. Bengal has refrained not only from taxing non-resident dealers, but also from imposing any purchase taxes.

A further point to be mentioned is that multi-point States such as Madras stand to gain more revenue from collection of the tax on non-resident dealers than by imposing instead a purchase tax on their

own dealer. This happens because, if extension of tax power to non-resident dealers is conceded, one more link is added to the multi-point chain of the particular transaction; whereas a purchase tax on the importing or resident dealer cannot be combined with a sales tax on the same transaction.

Added to these considerations is the difficulty of getting different States with different interests to act in co-ordination for the purpose of enabling the importing State to levy a purchase tax on its own dealers. For, the purchases cannot be effectively checked unless they are related to the sales by the non-resident dealer. If extra-territorial jurisdiction is not to be exercised, it follows that the Government of the exporting State should volunteer to obtain and supply to that of the consuming State the requisite information from the despatching dealers. This in most cases the exporting State is not prepared to do, for it usually means a great deal of trouble without any commensurate advantage to itself.

For all these reasons, a purchase tax is clearly not an effective solution for the particular difficulties it is supposed to solve.

16. Lastly, we may examine the suggestion that the sales tax may well be abolished since the same revenue, with broadly the same incidence, can equally well be secured by an extension of excise, customs and octroi. All goods, it is argued, are either produced in the country or are imported from outside; excise and octroi can be so designed as to secure the requisite additional revenue on the former category and customs can be similarly modified to take care of the latter.

17. Superficially, it may seem that the sales tax is similar to customs, excise or octroi. Judged merely from the point of view of the incidence of the tax on consumers there is arguably not much difference between the sales tax and these other taxes to the extent that they fall on the same commodities. From this is drawn the inference that the sales tax has no distinctive place in the tax structure of the country. This reasoning does not take account of certain fundamental features of the sales tax. It should be clear from the description of the evolution of the tax and the analysis of its features set out in the foregoing chapters that the three main characteristics of the sales tax as it has developed in this country are: (i) a levy which applies or is sought to be applied to the *generality* of goods as they reach the stage of consumption; (ii) an incidence which virtually falls in its entirety on the consumer, and (iii) a mode of collection which is almost wholly based on the fixation on the dealer of the responsibility to pay the tax. *In combination*, these three characteristics distinguish the sales tax from excise and octroi. Excise is a tax on goods which are manufactured or produced, and is therefore on production and not on sales or proceeds from sales. A certain amount of confusion arises because at the stage where the goods leave the manufacturer, these two taxes—excise and sales tax—give the impression of overlapping. But the overlapping is only apparant. Excise duties are collected from the manufacturer on his production even if there are no sales, whereas the sales tax is collected only when the manufactured goods are sold. Further, excise duties usually have proximity to the points of production. Moreover, for very good reasons, excise duties are necessarily selective,

and therefore the rates of duty are normally high, whereas the sales tax operates at different points of the trade channel, over a larger number of commodities and in varying degrees of proximity to the final consumption and can therefore be levied at comparatively low rates. It also follows that the sales tax can be varied in relation to the different grades of consumers in a manner which is not generally open to excise. In other words, sales tax can take cognizance of the varying degrees of specialisation and differentiation which occur in goods as they leave the stages of production and primary processing with which excise is concerned.

18. Octroi, as a tax at the point of entry into a specialised area, is in many instances unrelated to the different grades of consumption, e.g., goods consumed by the poor and those consumed by the relatively well-to-do classes. It is collected from the consignor, carrier or consignee and not necessarily from the dealer. Besides, it suffers from certain obvious limitations and disadvantages which disqualify it from being considered as a major source of revenue.

19. The third item of taxation mentioned is customs. By themselves it is clear that customs duties cannot replace the sales tax. Many goods that are imported are matched by goods which are produced within the country, and which can presumably be subject to excise duties. But we have already seen that excise duties are difficult to apply to domestic production which is undertaken either on a small or a medium scale; and these form a significant portion of total industrial output. Since, therefore, excise cannot be extended to all domestic industrial goods, whether they match imports or not, and since excise, as mentioned above, cannot extend to all the goods so produced, it is obvious that no combination of excise and customs can yield the same results, in terms of revenue, as a system of sales tax which, through its operation at points nearer the consumer, can take all such goods within its purview.

20. The merit of the sales tax as a major source of revenue lies in the fact that it is dispersed over a large number of goods and of dealers, and this makes possible the realisation of substantial revenue from a comparatively low rate of tax, whereas, by definition, customs and excise apply only to a strictly limited portion of the industrial output that is sold within the country. Even if the sales tax were levied, not by the States as at present, but by the Central Government on an all-India basis, it would not, in the circumstances mentioned, be a superfluous item in the tax system which could be conveniently and effectively replaced by a combination of excise customs and octroi.

21. Our analysis of the suggestions made for a change in the present system of sales tax has made it clear that they constitute no solution of the problems created by the working of the sales tax within the context of the existing Constitution. We have not dealt, however, with the suggestion that the sales tax should be removed from the State List and entrusted to the Central Government for administration. To this suggestion as well as the entire question of the place of the Union *vis-a-vis* the States in regard to the sales tax, we turn in the next chapter.

CHAPTER IV

THE UNION, THE STATES AND THE SALES TAX

The future of the system of sales taxation in India demands decisions on major issues of policy. The most important of the issues is the place to be accorded in that system to the Union and the States. For a decision to be reached on this issue, there has to be a reappraisal of the problem. The reappraisal must undoubtedly be in terms of the country as a whole, but necessarily also of the country as comprising individual States. If we cannot ignore the effects of the tax beyond the boundaries of individual States—and indeed, as we have seen, the inter-State problems are such as to call for prior attention—neither can we lose sight of the significance of the sales tax for the Government of each State. It is on the basis of this broad consideration that we examine in this chapter, the problem of the sales tax as it emerges from the account already given and as it will be seen in the light of the further facts which will be cited. Also included in this chapter are the conclusions we draw from our examination and the recommendations which we base on those conclusions. It would be convenient to start, in anticipation of our findings, with a concise statement of our assessment on the main problem, then elaborate the analysis on which that assessment is based, sum up our conclusions in some detail and, lastly, set out our recommendations in concrete terms.

Place of the Union and the States in the sales tax system.

2. If our main conclusion may be tersely expressed, it is that the States cannot do without the sales tax and, in terms of two or more States, the sales tax cannot do without the Union. There is in the sales tax system, not only a place for the Union, but an insistent need to give a place to the Union. That place is the whole sphere of inter-State sales. The States' sphere is complementary. Broadly speaking, it is the whole sphere of intra-State sales as at present. In the absence of more powers for the Union than now vest in it—that is to say in Parliament and in the Central Government—the inter-State sphere of sales taxation is occupied by Constitutional rigidities, occasionally diversified by judicial interpretation, instead of by law and administration that can adapt themselves to changing needs. That law and administration in the inter-State sphere should formally, and when need arises effectively, be with the Union; in actual practice, the administration should, in their individual jurisdictions, be delegated to the States. The revenue, inter-State or intra-State, should wholly devolve on the appropriate States. In the intra-State sphere, the States should be free to develop systems suitable to their varied conditions. There will then be in each State a system adapted to its own needs, and for the whole of India a composite one in which effective co-ordination will be possible between State and State and between the States and the Union. This then is our main finding compressed into terms of which further explanation is necessary and will in due course be given. Meanwhile we may turn to a somewhat detailed appraisal of the facts themselves.

3. The sales tax has been a subject of complaint by trade and industry ever since its introduction. The grounds of complaint are twofold: first the effects of the sales tax on the trade internal to each State and, to an even greater extent, its effects on inter-State trade. It is, as we have seen, the dealers who are made responsible for payment of the sales tax to Government. The burden of tax compliance, as distinguished from that of tax incidence, is thus avowedly on the trader. The class of traders affected differs for different systems and different States, but one or more classes are always affected. We find, therefore, that whatever may be the system of tax prevailing in a State, there is always, from some section or another of business interests, an agitation against the system in force and a clamour for its replacement by another. In a single-point tax system, where the importers, manufacturers and wholesalers are not liable to pay the tax and the cost of production of industries is safeguarded by the exclusion of certain essential raw materials, the opposition comes mainly from the retail merchants who, apart from such difficulties as they may experience in passing on the tax to consumers, find themselves obliged to maintain the various accounts required by the administration. There is opposition also from the consumers who directly feel the burden of a high rate of duty. In multi-point States, on the other hand, there is often a demand for a changeover to a single-point tax; this is mainly from the organised sections of trade and industry, i.e., importers, manufacturers and traders who have to pay tax on raw materials and manufactured goods at more than one point. The demand is on the ground that their competitive capacity is affected in comparison with the traders and manufacturers of other States which either do not tax raw materials or tax them, as also manufactured goods, at only one point. Opposition also comes from the trading community at large on the ground that the multi-point tax tends to bring about a reduction in the trade links between the manufacturers and importers on the one side and the retailers on the other, thus causing diminution of business and unemployment. In regard to inter-State trade, the measures, which have been taken by different States subsequent to the Supreme Court's judgment, have made matters worse for traders. With certain exceptions, each State now seeks to recover its tax from the non-resident dealer who delivers goods for consumption within its territory. Traders in distributive centres like Bombay, Calcutta and Delhi find that they have to seek registration under the Sales Tax Acts of practically all States. They are called upon to send returns, submit their books of accounts for examination, be assessed to tax by an officer of each State and make payments in accordance with such assessments. As a consequence, the demand from interests representing trade, industries and commerce sometimes takes the extreme form that the sales tax should be Centrally administered so that the problem of inter-State trade would be solved and complete uniformity assured in the rate of tax, exemptions and procedure and indeed in the system generally.

4. While, thus, trade and industry on occasion urge that the sales tax should be centralised, this proposal is strongly opposed by practically all the States. As has been noted, the sales tax now is not only among the largest single sources of revenue to the State

Effect of different systems of sales tax on trade and industry

Place of sales tax in the State financial system

Governments, but is also a source which has shown the greatest flexibility in terms of revenue yield. Moreover, the sales tax has become an integral part of the State financial systems, having been in force in some States for as many as ten to fifteen years. The financial structure of the States would be considerably dislocated if, at this late stage, so important and flexible an item of revenue as the sales tax was removed from the State List and transferred to the Union List. The argument that the receipts from the tax can be distributed to the States and their finances not adversely affected, does not take into account the many practical difficulties attendant upon the centralisation of a tax with such strong local moorings as the sales tax. In the rates at which it is levied, whether these be the 'ordinary' rates pertinent to articles in demand by the well-to-do classes, in the different items, sometimes many and sometimes few, that are exempted on general or local grounds or in the context of specific objectives, in the definition and demarcation, by means of prescribed limits of turnover, of those sections of the trade through whom the tax is to be collected—in all these and other important respects, the chief characteristic of the sales tax today is its elasticity as a fiscal instrument: an elasticity which enables State Governments to adapt and modulate it in its application to the widely differing conditions of the different States of India. This elasticity must remain, if the sales tax is to remain. Centralisation of the tax must be ruled out if only on the ground that it is inconsistent with the preservation of this elasticity.

5. In short, grades of consumption as well as classes of dealers differ greatly from State to State. In the detailed design, as in the operation, of a proper system of sales tax, the capacity of the consumer to bear the tax and of the dealer to keep the appropriate accounts are matters of great practical importance. Where a State is more rural than urban, the range of consumption which will have to be taxed for ensuring a large enough revenue tends to extend to the interior of the State, i.e., to its smaller towns and even rural areas. For the same reason, the range of distributive trade concerned with the levy and collection of tax tends to extend, not only to the medium, but also to the small dealers, who normally would be large in number and widespread in location. Where the tax is related to more urbanised consumption, the pattern of trade, as well as of processing and manufacture, will present a series of different problems, strongly localised in character, and therefore varying from State to State; and there will be need for quick and continuous response on the part of the sales tax machinery, including readiness to readjust rules and procedure, in order that the legitimate requirements may be met, as and when they arise, of producer, manufacturer and processor and of commission agent, dealer and consumer. It is true that the coverage of tax-collection extending from urban to semi-urban and rural areas, the number of medium and small dealers actually or potentially included within the spread of the tax jurisdiction and the magnitude and complexity of the difficulties which confront the tax-administration are features which are common to most States. At the same time, they vary considerably in character and composition from State to State and taken together present a large and almost bewildering variety of problems. In face of this, it would be almost impracticable for any departmental agency of the Central

Government to administer the tax; and, what is specially important, it would be hardly possible for legislative and rule-making power located in the Central Government to deal effectively and promptly with local grievances which often need to be remedied without delay. Against this background, we are emphatically of the view that the sales tax cannot be transferred from the States to the Central Government.

6. While thus, in our opinion, the tax has to continue to be levied by the States, there are certain aspects of the levy itself which require to be considered from the standpoint of the national economy. The restrictions on the powers of the State Governments to levy sales or purchase tax, imposed under Article 286 of the Constitution, are intended to provide for these aspects. The first of these relates to foreign trade, that is to say, to taxation at the points of imports and export and to the need of ensuring that individual State Governments are not in a position to take action that affects the foreign trade of India. The second may be broadly described as the field of inter-State commerce; within this field the need which arises is to ensure that the sales tax system of one State does not impose an arbitrary and unregulated burden on either consumer or dealer of another State or unduly interfere with the free flow of such trade and commerce. The third, as specified in the Constitution, relates to goods essential for the life of the community and in this respect is parallel to the power for their part exercised by the State legislatures and Governments in exempting various categories of goods from the operation of the sales tax within the States.

7. In regard to foreign trade, i.e., sales which constitute import and export in terms of the country as a whole, the present position under the Constitution may be regarded as satisfactory. As interpreted by the Supreme Court, this position is briefly that those sales and purchases which themselves occasion the export or import, and those sales in the State which are effected by the importer by transfer of shipping documents while the goods are still beyond the customs frontier are excluded from the sales tax jurisdiction of the States. Purchases in the State by the exporter for the purpose of export and sales in the State by the importer after the goods have crossed the customs frontier are held to be not within the exemption. Hardly any State has complained about the particular provision of the Constitution which concerns this aspect. We consider the position under the Constitution to be perfectly satisfactory so far as foreign trade is concerned.

8. The provisions relating to inter-State commerce and 'sales outside the State' stand, however, on a different footing. As enacted and interpreted, they have given rise to major complications for the trade and to almost universal protest from the State Governments. Complete exemption of sales outside the State places the exporting State in a disadvantageous position. A state with a backward economy and relying on revenue from the sales tax leviable on its main sources of agricultural or industrial raw materials suffers financially from this restriction. The regulation of sales tax in relation to the effect of the system of one State on the consumer or dealer of another State does not necessarily imply that no tax whatever should

be charged on inter-State transactions by the exporting State. What is necessary is to ensure that the tax, if any is charged, should not exceed the limit or limits which Parliament in the interest of the country as a whole considers reasonable and which, accordingly, may have to be embodied in appropriate legislation or regulation. The assumption that control of sales tax in relation to inter-State trade can only be on the basis of eliminating the tax element altogether, in so far as this pertains to a levy by the exporting State, does not seem to us warranted. Unfortunately, this very assumption underlies the relevant constitutional provision; and, as we have seen, it has led to a number of administrative and other complications. In effect, the Constitution lays down that the tax shall go with consumption, and that the exporting State shall not be entitled to levy any part of it. The Supreme Court's interpretation is that the State where the goods are delivered for consumption is entitled to tax the sales of such goods. The constitutional provision, in conjunction with judicial interpretation, and the manner in which the interpretation has been understood, has virtually brought about the following position: that State alone can levy the tax in which the consumer is situated, but it can collect it not merely from its own dealers but from those of other States. This has had two conspicuous effects. Certain States have been attempting to extend their tax jurisdiction to dealers in other States. At the same time, since such jurisdiction can, in practice, be exercised only over the registered dealers of the other States concerned, it has been found profitable for consumers and unregistered dealers of the tax-collecting State to make purchases from other States. This is only one aspect of the type of evasion which has developed. Even where the consumer or unregistered dealer of the tax-collecting State buys from a registered dealer of the despatching State, the collection of the tax from that registered dealer is obviously a difficult proposition for the State in which the consumer is located. This difficulty could have been surmounted if there was complete co-operation and co-ordination between the two States, i.e., the one in which the registered dealer is situated and the other in which the consumer or unregistered dealer is situated. Such co-ordination can hardly be expected, and in practice has been lacking, for the reason (among others) that the exporting State has no interest in the transaction; it does not get any revenue out of it under the present provisions of the Constitution. The efforts of different States to extend their jurisdiction to dealers of other States, the large volume of evasion which has developed in inter-State trade transactions and the want of co-ordination between States are three important considerations to be kept in mind in deciding whether the exporting State should continue to be denied the power to levy any tax whatsoever on a transaction which results in consumption in another State.

9. That is not all. Another important point to be borne in mind

Effect on inter-State trade of restrictions on sales tax under different systems

in this context is the difficulty of adopting a line of treatment which is equally applicable to single-point and multi-point systems. In an 'incidence controlled' system, such as is represented by the single-point scheme of sales taxation, the total tax levied by the States on any

one transaction can be readily determined and it is therefore easy to ensure that the whole of the tax is eliminated at the

point of sale by the dealer of one State to that of another. In a multi-point system, it is obvious that no such effect can be ensured: the tax collected at all stages except the last, i.e., at all points previous to the ultimate one which results in export to another State, has already accrued to the State Government; its total incidence is not known, because the total number of points at which the multi-point tax has been levied is not readily ascertainable. The constitutional provision, as it has operated in relation to multi-point system, has therefore affected only the ultimate point of sale when the goods are transferred from one State to another. In effect, therefore, multi-point States can retain an appreciable portion of the tax on such transactions in contravention of what may be regarded as the intention of the Constitution. There is no way of altering this position except by altering the multi-point system itself in the States which have adopted it; and that, except in certain respects and to a limited extent, is neither feasible nor, as we shall see later, desirable.

10. The third restriction relates to the taxation of "goods declared by Parliament by law to be essential for the life of the community". There is one important distinction in principle between 'essentiality' and 'inter-State trade' as grounds for limiting the relevant powers of the States, that needs to be emphasised. In regard to 'inter-State trade', the Constitutional restriction operates between the Government of one State and the consumers and dealers of another. On the other hand, in regard to 'essentiality', it empowers Parliament and the Central Government to intervene in the internal tax-system of a particular State. It virtually empowers the Central Government to step in between the Government and the consumers of that State and directs the former either not to tax certain 'essential' commodities or not to exceed a stated level of taxation in respect of them. This important distinction, together with the conception of 'essentiality' itself, has tended to be blurred for various reasons. There is logically no reason why the Central Government should not declare different sets of commodities to be 'essential' to the people of different States. But, naturally, the Central Government in this matter thinks almost invariably in all-India terms. As a result, the exercise of the Central power of exemption has tended to concentrate itself on such goods as are of importance not to individual States, but to States generally. In this process, attention has largely been attracted to commodities of importance in inter-State commerce; and accordingly there has been a significant degree of overlapping between the two logically different concepts of essentiality from the point of view of the life of the community and importance from the point of view of inter-State trade. Besides, the Constitutional provision does not extend to goods on which sales tax had already been imposed by the States at the time the relevant Central Act (under that provision) came into operation. Many commodities, therefore, even of the strictly 'essential' category, continue to be taxed by certain States for internal purposes. Yet another fact, which State Governments have brought pointedly to our notice, is that in a few instances (e.g. petrol) the result of applying the 'essentiality' provision has been to put a statutory bar on increasing the sales tax levy on an article

without any corresponding restriction as to the duties of customs or excise or both leviable on that article.

11. It is therefore necessary to examine with some care the implications of the constitutional restriction imposed on the States on the ground of 'essentiality'. Once it is assumed that some restriction in the field of inter-State trade is necessary and should be provided for in the Constitution and further regulated by Central legislation, the issue of 'essentiality', in the context of the Constitutional restriction, resolves itself into the following question: in the purely internal aspect relatable to the interests of the consumers of a particular State, should the Parliament, in addition to the State legislature, have the power to declare that certain goods should be free of sales tax or be charged not more than a certain rate of sales tax? The answer to this question depends to a large extent on the significance we attach to sales tax in the context of economic policies of national importance. Assuming that no such policy (e.g., statutory price control or price support) is significantly affected by sales tax, and assuming further that the sales tax is not utilised, for example, as a species of internal tariff to create substantial price differentials in favour of one line of production as against another, there is no reason why a State should not determine the range and rates of its sales tax, the incidence of which rests on its resident consumers and the collection of which is made from its resident dealers. In actual fact, there is no reference to national economic policy in the constitutional provisions restricting the power of the State Governments in respect of the sales tax on intra-State transactions. On the other hand, the restrictions rest upon a concept of 'essentiality' which makes no distinction between the 'community' as represented by the people of the particular State and the community as represented by the nation as a whole. In regard to the impact of the sales tax of a particular State on the people of that State, it seems to us unnecessary that the Central Government should exercise, through Parliamentary legislation, a jurisdiction which, in terms of the State's own powers, is at once concurrent and over-riding. There are good reasons why the State legislature and the State Government may be left to decide for themselves the intra-State aspects of their sales tax law and regulation. It is they who will feel the impact of the discontented dealer and consumer, if these latter labour under a legitimate grievance, just as it is also the State Governments that stand to lose revenue on account of exemptions and tax-ceilings. The provision that now exists in the Constitution for the interference of the Central Government in regard to sales tax on intra-State transactions would therefore seem to be inappropriate. This, however, would be subject to the proviso that sales tax on intra-State transactions is not such as to constitute a levy on non-resident consumers. As regards the needs for conformity to national economic policy, this is a matter which not only affects the sales tax but also many other aspects of fiscal and economic action by the States. The proper way to provide for this would be by way of an appropriate provision for co-ordination between the Central Government and State Governments in the matter of economic development, including therein fiscal policy as but one aspect, and not by a special provision relating only to the sales tax.

12. Within the States itself, the effects of the sales tax on trade

Factors determining the effects of sales tax on intra State trade

and industry, and on the consumer, depend on various factors. Among other things, they vary with the system. As already noted, the multi-point system has tended to be adopted by States in which agricultural production and rural consumption are preponderant and small dealers constitute a large section of the trade. In these circumstances, a relatively small levy at each stage can result in appreciable revenue on account of the large number of dealers from whom it is collected and of the large number of goods on which it is levied. The accounts prescribed could be simple, since exemptions would be few or none and the determination of total turnover relatively easy. Trade, industry, and consumer are not much affected so long as the State Government refrains from raising the multi-point rate to a level inconsistent with the main virtues of the system itself. As explained earlier, no multi-point State has in practice refrained from doing so. The higher rates accordingly imposed have, in various degree, affected the trade organisation (by tending to eliminate the intermediate links), raised the cost of production, necessitated exemptions which in turn have complicated the accounts, and, in spite of the exemptions, affected the cost of living of middle-class and other consumers. Certain complications have also arisen through the inclusion of 'luxury' taxation in the multi-point scheme, i.e., in a system which is not really designed for this purpose. All these complications find ample illustration in the working of the system in Madras, Mysore and Travancore-Cochin. In regard to the single-point system, it was fairly satisfactory in the form originally introduced in different States. By and large, it suited the economic patterns of the States which adopted it. The rate itself (as inherent in this system) was relatively high; but there were liberal exemptions granted so as not to raise unduly the cost of living of the poorer classes. Moreover, the taxable turnover for registration was usually high enough to ensure that only those dealers would be registered who were capable of maintaining detailed accounts in the prescribed forms. Cost of production was not allowed to be unduly affected; this was provided for by the exemption usually granted to the raw materials, as also to a variety of processed goods, used in the manufacturing and other industries. But various subsequent steps, taken under the pressure of revenue needs, had the effect of unduly complicating the original system. A few States commenced to tax sales in the course of inter-State trade, and this led to the restrictive provisions of Article 286 being incorporated in the Constitution. The States have reacted to these provisions in various ways. Thus Bihar started taxing both raw materials consumed by its manufacturing and processing industries. Madhya Pradesh levies a tax on certain raw materials which under its original single-point tax were not liable to tax. Bombay, as mentioned before, changed over first to a multi-point and later to a double-point levy; further, it taxes certain varieties of raw materials out of which its industrial concerns manufacture goods, a part of which of course finds its destination outside the State. Even Bengal, notable for the orthodoxy of its single-point system—the tax itself being levied at the last stage—has had to make one significant departure; on account of the evasion of the last-point tax on cigarettes, these have, as we have seen, now been made liable to the tax at the first stage. It

is clear, therefore, that no particular system has long retained its original orthodoxy. Circumstances and needs of revenue have compelled the State Governments to make adjustments in the system; the changes have involved some degree of combination of the two systems; but the extent of the combination itself has differed from State to State.

13. We may now briefly sum up the relevant facts and considerations as they emerge from the analysis attempted in the foregoing paragraphs. It is broadly correct to assume that the sales tax as it operates in India is collected from the dealer, but is passed on by him as part of the sale price to the consumer. Accordingly, the administrative implications of sales tax are mostly concerned with the dealer and the financial burden of the tax is largely borne by the consumer. Where both dealer and consumer are situated in the same State, the levy of the tax by the Government of that State cannot be open to any objection. It is where either of these is outside the territorial jurisdiction of the State Government that real difficulty is experienced in the operation of the tax. This consideration may be said to underlie one of the main constitutional provisions in respect of the sales tax; in effect, clause (1) of Article 286 links the sales tax to one of the two parties mentioned above, *viz.*, the consumer, and lays down that no State shall levy tax on a sale which results in delivery for consumption in another State. As interpreted by the Supreme Court and, further, as that interpretation has been generally understood, this has resulted in two things:

- (i) State Governments have sought to exercise jurisdiction over dealers resident in other States on the ground that sales by such dealers have resulted in delivery for consumption in the territory of these States; and
- (ii) consumers belonging to particular States have sought to buy direct from dealers resident in other States in order to escape taxation by either State.

It has not been possible to solve the first of these problems by any scheme of co-ordination between the States concerned, because the Government of the exporting State had no fiscal interest in the transaction and was therefore usually not prepared to put itself to the trouble of collecting information for the benefit of the Government of the importing State. The second of these problems assumed serious proportions in certain cases, and the same lack of co-ordination has hitherto prevented a solution. Another main difficulty is traceable to clause (3) of Article 286 which in effect gives Parliament a power concurrent with that of the State legislature for declaring that certain goods are exempt from sales tax (on the ground that they are 'essential for the life of the community'). Since this provision has not been given retrospective effect, a wide disparity has resulted in the exempted goods of different States; and in a few instances the power of imposing a sales tax ceiling on 'essential' goods has been exercised by the Union with respect to commodities on which it continues itself to levy relatively high duties of customs and excise. Broadly speaking, the only provision of Article 286 which has not given rise to a real problem is sub-clause (b) of clause (1) which prohibits States from levying a tax on sales or purchases which take place "in the course of the import of goods

into, or the export of goods out of, the territory of India". Apart from this, the difficulties experienced by trade, etc., and the lack of co-ordination between Governments has been such that there has been from many quarters a demand for transferring the sales tax as a whole to the Union List. But this, as we have already made clear, we regard as wholly impracticable.

14. In the light of these conclusions, we may proceed to set out certain considerations of policy as basic for the future development of the sales tax. These, in our opinion, are as follows:—

(i) In essence, the sales tax must continue to be a State tax: as a source of revenue (subject to the very minor exception in respect of newspapers) it must wholly belong to the States; and as a tax to be levied and administered, it must substantially pertain to State Governments.

(ii) In broad terms, however, the sphere of power and responsibility of the State may be said to end, and that of the Union to begin, when the sales tax of one State impinges, administratively on the dealers, and fiscally on the consumers, of another State. Broadly, therefore, inter-State sales should be the concern of the Union; so should specific intra-State sales as, for example, when raw material produced in a State is sold to a manufacturer in that State and the finished goods in turn figure significantly in inter-State commerce. To the extent necessitated by these considerations, but to that extent only, the system should contain the appropriate provisions, including certain Constitutional restrictions on the States and certain powers of levy and control by the Union.

(iii) The Constitution in effect divides sales of goods in India into (a) goods delivered for consumption in a particular State and (b) other sales. The dichotomy is imperfect from the point of view of tax administration. On the other hand, all sales of goods could both usefully and effectively be divided into (a) those in the course of inter-State trade and commerce and (b) those not in the course of such trade and commerce. The former should, broadly speaking, be the sphere of the Union and the latter, the sphere of the States. But the responsibilities pertaining to the Union could be exercised through the State Governments and the revenue in any case be devolved appropriately on them. This would ensure both co-ordination and adaptation to changing needs more effectively than rigid constitutional provision supplemented by occasional judicial interpretation.

(iv) The Union's powers of levy and control in respect of inter-State and specified intra-State sales should be so exercised that

- (a) there is no avoidable duplication in the actual administration of the tax, and
- (b) there is as much incentive for co-ordination as possible between States from which goods are despatched and those in which they are delivered for consumption.

To the extent necessitated by the latter consideration, there is no reason to rule out the levy of a tax at the exporting end of an inter-State sale; such tax, however, should be leviable by the exporting

State on the authorisation of the Union and as an agent of the Union; further, its rate would be strictly limited by the Union.

(v) Subject to the above considerations, each State should be free (so far as Central control is concerned) to evolve the system of sales tax best suited to its conditions. Where the State is in effect taxing its own consumer, it should not be open to Parliament to exercise concurrent power in regard to the declaration of certain articles as exempt from sales tax. All restrictions on the State must be broadly relatable to the 'inter-State' sphere of transactions, i.e., to transactions which may be said to result in 'export' to another State and which, therefore, are important from the point of view of the consumer or industry of another State. The only exception to this would be the raw materials, etc. to which a reference has already been made, since by taxing these (while they are still intra-State) the State Government can effect an increase in the cost of the manufactured article whether such manufacture takes place in the State which produces the raw material, or in another which imports the material from that State; in either case, to the extent that the finished goods are consumed in a State other than the one which taxes the raw material, the increase in cost on account of the tax is a matter of direct concern to the consumer of another State. This, therefore, is an example of an intra-State sales tax having an important inter-State bearing which, on the principles we have mentioned, and provided certain special conditions are satisfied, makes it an appropriate item for control by the Union. It is at the same time imperative that such control over intra-State items of taxation should be strictly confined to a very small number of well-defined commodities of special significance for inter-State trade. Broadly speaking, no commodity should be selected in this context which does not combine the following characteristics: (i) it should be raw material or largely in the nature of raw material; (ii) either as raw material, or later as finished goods based on such material, it should, in terms of volume of inter-State transactions, be of special importance in inter-State trade and (iii) in terms of the country as a whole, it should also be of special importance from the point of view of the consumer or of industry.

15. The recommendations for Constitutional amendment which are set out below in the form of draft amendments for implementation are based on the foregoing considerations.

A.—Seventh Schedule

(1) In List I, after entry 92, the following new entry shall be inserted, namely:—

“92A. Taxes on sales or purchases of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce”.

(2) In List II, for entry 54, the following entry shall be substituted, namely:—

“54. Taxes on the sale or purchase of goods other than newspapers, subject to the provisions of entry 92A of List I”.

B.—Article 269

In clause (1), after sub-clause (f), the following sub-clause shall be inserted, namely:—

“(g) taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce”.

C.—Article 286

(1) In clause (1), the *Explanation* shall be omitted, and for the words “territory of India”, the following shall be substituted, namely:—

“territory of India; or (c) in the course of inter-State trade or commerce”.

(2) For clauses (2) and (3), the following clauses shall be substituted, namely:—

“(2) For the purpose of clause (1) of this article, article 269, entry 92A of the Union List, and entry 54 of the State List, Parliament may by law formulate principles for determining whether a sale or purchase of goods takes place in any of the ways mentioned in clause (1) of this article.

(3) Any law of a State shall, in so far as it imposes, or authorises the imposition of, a tax on the sale or purchase of goods declared by Parliament by law to be of special importance in inter-State trade or commerce, be subject to such restrictions and conditions in regard to the system of levy, rates and other incidents of the tax as Parliament may by law specify”.

16. The Constitutional amendments suggested above provide for Central legislation in respect of all inter-State transactions of sale and certain transactions, whether or not inter-State, in respect of goods which are important in inter-State trade. They also provide for the formulation of principles for determining whether a sale or purchase of goods is within a State or outside it, and whether it is in the course of inter-State trade and commerce or not in the course of such trade and commerce. It is necessary to consider in detail what provisions the proposed Parliamentary legislation should contain in regard to these matters. So far as goods of special importance in inter-State trade are concerned, the Parliamentary legislation will only specify the restrictions and conditions subject to which the States themselves can levy the tax on the intra-State sales transactions. But in regard to inter-State trade in general, it will be for the Central Government to levy and collect the sales tax under Article 269, and distribute the proceeds to the States. It is not envisaged by us that the Central Government would ordinarily maintain any elaborate administrative machinery of their own for this purpose. As almost all the States in India now levy a sales tax and have their own procedure of assessment, collection, etc., and have administrative arrangements for that purpose, it would be both economical to the Central Government and also convenient to the traders who would otherwise be subject to two assessing authorities if the State machinery is used for the levy and

Main features of Parliamentary legislation

collection of this tax. The difference in the system, taxable quantum, etc., would not, for reasons which we explain later, matter much. The Central Government will impose the tax; at the same time, the Parliamentary legislation will have to provide for delegating to the States the powers of the Central Government in respect of assessment, collection, etc. Further, the legislation should provide that the receipts instead of being credited to the Central revenues and then distributed to the States on the basis of collection, should be retained by the States for their own purposes, subject to the exceptions mentioned below.

17. The proposed Central legislation, for the levy of sales tax

**Rate of sales tax
on inter-State
trade**

on inter-State trade, will have also to specify the rate at which the tax on sales in the course of inter-State trade and commerce should be levied.

Since, in permitting the levy of sales tax on inter-State trade, the main intention is to ensure that some revenue accrues to exporting States without raising unduly the burden on consumers in the importing State, it is necessary that the rate to be specified in the Central legislation should be comparatively low. It should, in our opinion, be one per cent. on all articles except on 'goods of special importance in inter-State trade'. Inter-State trade comprises two types of transactions, viz., (i) transactions between registered dealers of one State and registered dealers of another and (ii) transactions between registered dealers of one State and unregistered dealers of another. The rate of one per cent. proposed above would apply only to the transactions between the registered dealers in one State and the registered dealers in another. In regard to these transactions, while the exporting States will, under the scheme of Central taxation of such transactions, retain the tax receipts realised from the levy of one per cent., the importing States will be able to recover their own taxes on the re-sales of those goods by the registered dealers within their area.

18. Where transactions take place between registered dealers in

**Sales tax on inter-State trade with
unregistered dealers and consumers**

one State and unregistered dealers or consumers in another, this low rate of levy will not be suitable, as it is likely to encourage avoidance of tax on more or less the same scale as the present provisions of Article 286 have done. If

this is to be prevented, it is necessary that transactions of this type should be taxable at the same rates which exporting States impose on similar transactions within their own territories. The unregistered dealers and consumers in the importing State will then find themselves unable to secure any advantage over the consumers of locally purchased articles; nor of course will they, under this system, be able to escape the taxation altogether, as many of them do at present. We further suggest that it should be provided in the Central legislation that when the Central Government levy the tax on these transactions (i.e., inter-State sales between a registered dealer on the one side and an unregistered dealer or consumer on the other side) at the full rates leviable by the exporting State on its internal sales, the proceeds in excess of the receipts from the rate normally leviable on inter-State trade and commerce between registered dealers should be made available to the State where the goods have been delivered. The reason for this suggestion is

obvious, viz., that the importing State should have its due share of the tax on these transactions which it will have no opportunity of taxing itself at a subsequent stage. It may, at first sight, appear that the procedure involved in this division of tax receipts will be administratively difficult. It will be necessary first to find out the despatches to unregistered dealers and consumers; secondly, to trace the States where the goods have been delivered; and thirdly, to apportion the receipts among the respective States. It is, however, likely, as observed earlier, that the very fact that the sale of goods to the unregistered dealers and consumers is liable to the full tax of the exporting States would in itself remove any incentive for resorting to transactions of this type. When the full scheme of sales tax proposed by us comes into operation, the extent of trade between the registered dealers of one State and the unregistered dealers or consumers of another will, in all probability, go down to negligible dimensions and the administrative difficulties in apportioning the relevant tax receipts are not likely to be serious.

19. The Central legislation need make no distinction between ordinary goods and 'luxury' goods on which the State Government for their internal sales may have different rates of taxes. The rate prescribed for inter-State transactions will be uniformly chargeable on all these commodities. Such uniformity in the rate of tax is necessary, as otherwise the 'luxury' goods would be liable to be charged the higher rates twice over, once in the exporting State and again in the importing State. Lastly, the Central legislation should also provide, with reference to different commodities, that where for internal sales no tax (or a lower rate of tax) is levied by the exporting State, the tax to be collected by it on the inter-State sales of the relevant commodities will be similarly exempted (or, as the case may be, taxed at the same lower rate).

Sales tax on inter-State trade in 'luxury' goods

ordinary goods and 'luxury' goods on which the State Government for their internal sales may have different rates of taxes. The rate prescribed for inter-State transactions will be uniformly chargeable on all these commodities. Such uniformity in the rate of tax is necessary, as otherwise the 'luxury' goods would be liable to be charged the higher rates twice over, once in the exporting State and again in the importing State. Lastly, the Central legislation should also provide, with reference to different commodities, that where for internal sales no tax (or a lower rate of tax) is levied by the exporting State, the tax to be collected by it on the inter-State sales of the relevant commodities will be similarly exempted (or, as the case may be, taxed at the same lower rate).

20. As we envisage it, an important aspect of the Central legislation will be concerned with the definition of the locale of sales for the purpose of defining in detail the relative jurisdictions firstly of the Union and the States and secondly of the States *inter se*. We have elsewhere noted that in the absence of specific legislative provision for these matters, as distinguished from the far too cryptic provisions of the Constitution, on the one hand, and the far too general legal provisions relating to sales of goods on the other, considerable confusion now prevails on important aspects of jurisdiction. Entirely irrespective of constitutional restrictions and Central Government's powers of levy, it is obviously necessary that there should be a body of law which defines, with specific reference to the sales tax, the circumstances in which a sale becomes taxable by a particular State and by no other. The relevant principles can only be formulated after expert examination; we recommend that this should be done and the principles embodied in the suggested legislation. We realise, of course, that the legislation itself may have to be modified from time to time in the light of new circumstances not fully provided for, or of judicial interpretation of the original provisions. Parliamentary legislation, as distinguished from constitutional provision, will have the obvious

advantage that these modifications can be made as required without undue delay or difficulty. It will not, of course, suffice to define the jurisdiction *inter se* of individual States. The other important aspect of Central legislation would be the definition in adequate detail of what constitutes a sale or purchase in the course of inter-State trade or commerce. In this matter too, the embodiment of the principles in an enactment of Parliament, and not in the Constitution itself, would have the advantage that the details of the law can, without undue rigidity, be modified to suit new facts or unforeseen circumstances. As we have stated, the Constitution itself would of course lay down the broad division of tax power between the Union and the States. The important fact would remain that all sales would fall under one or the other of these categories. The Union, which under the scheme would, of course, derive no revenue from the taxation of inter-State sales or purchases, would be solely interested, in the legislation which it promotes, in securing, from a practical angle, the maximum possible co-ordination between different States in regard to the operation of the inter-State sales tax and the maximum possible equity in the apportionment of the relevant proceeds to the States in which the goods have been physically delivered and those from which the physical despatch has taken place. In the actual provisions of the law, it will no doubt avoid the many pitfalls which have been a feature of the present constitutional provisions as they have been interpreted and implemented, and even if it does not fully succeed in doing so at the outset, the relevant legislation, as we have emphasized, can be modified at subsequent stages in conformity with the administrative and other requirements as they arise from time to time.

21. To give effect to our recommendations regarding the Central regulation of States' sales taxes on goods of special importance in inter-State trade, the Central legislation will have, firstly, to specify such goods, and secondly, to impose conditions and restrictions subject to which the State Governments can impose their tax on the internal trade in those goods. The main condition will be that no State shall have a system of levy other than a single-point levy on such specified goods. The tax may either be on sales or on purchases, but it will be recoverable only at the last stage of sale or purchase by a registered dealer. This condition is necessary to ensure that the tax burden on goods of importance in inter-State trade is properly regulated and not allowed to remain vague or undetermined as would be the case under any other system of sales tax. The second condition will be to prescribe the maximum rate of tax. As stated earlier, we recommend that this rate should be three pies per rupee. This would amount to nearly $1\frac{1}{2}$ per cent. as against the one per cent. which we have recommended in respect of all other inter-State sales. There are two important grounds on which we recommend this higher rate. Firstly, for the goods specified as of special importance in inter-State trade, as distinguished from all other goods which figure in inter-State trade, the point of levy of the tax will be only one, i.e., the point at which such goods (raw material, etc.) are taxed by the State in which they are produced. As we proceed to mention below, it will be a condition in respect of such goods that no other sales tax shall be levied on them either by the exporting State or the importing State. Secondly, the higher levy we recommend will be at the raw material or

analogous stage when the cost of the goods will obviously be much lower than at the subsequent stage of the conversion of the material into finished goods. A levy of $1\frac{1}{2}$ per cent. at the earlier stage would, therefore, by no means be unreasonable in comparison with a levy of one per cent. on manufactured goods. A tax at this rate will ordinarily be levied either at the point of despatch of the specified goods to another State or when the raw material, etc. are sold in the producing State itself, for manufacture in that State, at the point of sale to, or purchase by, the manufacturer. The third condition, as already indicated, will be that the importing State should not levy either a sales tax or a purchase tax on these goods if at the export end they have already been subjected to tax; otherwise these commodities would be taxed more than once and the object of controlling the incidence thereon will be frustrated. All these conditions are accordingly necessary, if the burden of tax incidence on these selected commodities of all-India importance is to be properly controlled in the light of the principles we have enunciated.

22. The points for Central legislation may now be briefly enumerated:

**Main features of
Central legisla-
tion**

(1) The Central legislation to be enacted under the powers proposed to be given to the Central Government should, as its principal feature, authorise the State Governments to impose on behalf of the Central Government a tax on the sale or purchase of goods in the course of inter-State trade and commerce. The Central legislation should also delegate to the State the Central Government's powers to levy and collect the tax, and for this purpose prescribe the same system of registration, assessment, etc., as prevails in the States concerned under their own sales tax systems. It may also impose conditions regarding the collection of this tax and take powers to compel any State to collect the tax on behalf of the Central Government.

(2) The rate of tax to be prescribed under the Central legislation should be—

(a) *For inter-State trade between registered dealers:—*

- (i) $\frac{1}{4}$ anna in the rupee for "specified goods", and
- (ii) one per cent. in regard to all other goods.

(b) *For inter-State trade between a registered dealer in one State and an unregistered dealer or consumer in another:—*

the same rates as are levied by the State (from where the goods are despatched) on sales or purchases of similar goods within its territory.

No distinction should be made for the purpose of this Central tax between a State adopting a single-point sales tax and a State which has either a multi-point or two-point sales tax.

(3) The receipts from the imposition of the proposed Central tax on inter-State trade between a registered dealer in one State and a registered dealer in another should be retained entirely by the State levying the tax on behalf of the Central Government. But in regard to the receipts from the imposition of the tax [referred to in

2(b) above] on inter-State trade between a registered dealer in one State and an unregistered dealer or consumer in another, the State imposing it on behalf of the Central Government should retain only such portion of it as represents receipts from the tax at the rates fixed for inter-State trade between registered dealers [vide 2 (a) above] and make over the excess receipts, if any, to the States which have received the goods in the course of such trade. This is necessary: firstly, to prevent the avoidance of sales tax by dealers through inter-State trade with unregistered dealers and consumers; and, secondly, to ensure that a part of the receipts from the tax on such transactions also accrues to the States to which the goods have been sent.

(4) The Central legislation should also provide that:

- (a) there will be no levy of the Central tax on the sales or purchases of goods in the course of inter-State trade and commerce, if the same are exempted within the State from a sale or purchase tax of the State concerned. Similarly, if for internal trade, any goods are liable to a lower rate of tax than that prescribed for the Central tax on inter-State trade, then the Central tax will be leviable only at the corresponding lower rate;
- (b) no purchase tax will be levied by the State on the specified goods on which a Central tax on inter-State trade has already been levied at the rate of $\frac{1}{4}$ anna in the rupee.

(5) The Central legislation should embody principles for determining whether a sale or purchase of goods takes place: (i) outside the State; (ii) outside the territory of India; and (iii) in the course of inter-State trade and commerce.

(6) Subject to the limitations mentioned below, the States should have full powers to tax sales or purchases of goods, including goods declared at present as essential for the life of the community under Article 286 (3). In regard to the levy of a tax by the States on sales or purchases of 'specified goods', the Central Government should take power to impose conditions subject to which the States can levy the tax. These conditions should be that, in replacement where necessary of existing systems and levies,

- (i) the States shall levy only a single-point tax (at the last stage of sale or purchase) on these goods, and
- (ii) the rate shall not exceed $\frac{1}{4}$ anna in the rupee, i.e., the same rate at which the Central tax will be imposed on these goods in the course of inter-State trade.

The following goods should be specified in the Central legislation:—

- (i) coal;
- (ii) iron and steel;
- (iii) cotton;
- (iv) hides and skins;
- (v) oilseeds;
- (vi) jute.

We would emphasize that this list should not be expanded except in the light of the principles we have elsewhere mentioned; we would further strongly recommend that no addition should be made to this list without consulting the Inter-State Taxation Council, for the establishment of which proposals are made in another part of our Report.



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CHAPTER V

THE STATES AND THE SALES TAX

In this chapter we propose to explain a little further the considerations underlying the pattern of sales tax we have recommended for individual States: an adaptable pattern which, while combining some of the features of the principal systems, multi-point and single-point, provides for the correlation of those features to the conditions of the particular State, especially those relevant to the structure of its trade, consumption and production. We also propose to consider in some detail the problems which arise in the administration of the tax by State Governments.

2. In view of the need for additional revenue for developmental and social welfare activities the tax system has to be so fashioned that as many people as possible contribute to the exchequer in accordance with their individual capacities. A general sales tax is one of the means available for ensuring this. If the tax is to reach the lower income groups and cover a large number of persons, the rate of tax has to be low and the system (in this context) a multi-point one. Though it is on the consumers that the burden of the tax may be expected to fall, it is on the dealers that the responsibility for payment will rest and, where the coverage of the tax is wide, the large majority of these will obviously be small dealers operating in the semi-urban and rural areas. For them, the maintenance of complicated accounts and the assessment of liability on the basis of those accounts will present difficulties which are more burdensome than the amount of the tax itself. The requirements of tax compliance, therefore, have to be simplified and otherwise adapted to their capacity. Exemptions, however well-intentioned, add to the burden of compliance, since separate accounts have to be kept of all the sales exempted. It will be simpler for the small trader to calculate his total gross turnover for a year and pay the tax at the rate prescribed. To State Governments too, the extension of the tax liability to the total turnover of the dealers would be advantageous from the point of view of revenue; the coverage will be wide not only in point of dealers, but also in point of goods. The low rate at which any such tax can be levied will prevent any undue rise in the cost of living of the poorer classes. The rates now imposed in most of the multi-point States will be readily seen to be unsuitable for the wide-based multi-point tax recommended here, especially when it is remembered that it is part of our recommendation that for dealers at a higher level of turnover, this tax should be combined with a single-point tax. Where the latter is nine pies in the rupee as in Bengal for example (or, in the shape of a double-point tax, is in effect nine pies in the rupee as in Bombay), and even where the single-point tax is half an anna in the rupee, we are of the view that the concurrent multi-point tax which we recommend should not be higher than half per cent. We should be understood as saying this without prejudice to the possibility of Bengal and Bombay reducing their present rates of tax,

single-point or double-point, in the event of their adopting the additional multi-point tax here recommended. Moreover, in the context of the combined system we envisage, we consider that, irrespective of the level of the single-point rate which may be adopted, the concurrent multi-point rate cannot be anywhere near as high as one and a half per cent. which, in the separate context of their present systems, now obtains in Madras and certain other multi-point States. In other words, we envisage the future system in the multi-point States as one where there is a substantial reduction in the rates of the multi-point tax accompanied by the introduction of a single-point tax at appropriate rates and with appropriate exemptions from the single-point levy. In the single-point States, we envisage the future system as one where the single-point tax continues to prevail with appropriate exemptions and at appropriate rates (i.e., rates appropriate to the combined system) but accompanied by a multi-point tax at substantially low rates, and with hardly any exemption, as recommended by us. We would stress these considerations regarding rates and exemptions as an important part of the assumptions underlying our recommendations for a flexible pattern of sales tax for the States as a whole. We recognise that it will take some time before State Governments are able to effect the changes necessary to bring their existing systems in line with the pattern recommended by us. Obviously, the pace of change and the length of the transitional period will have to be related by State Governments to their individual circumstances. We trust, however, that the pace will not be unduly slow or the period unduly long.

3. All dealers having a turnover of Rs. 5,000 a year may be made liable to the multi-point tax in the combined system we recommend. We have already indicated that an exception should be made in favour of agriculturists who grow and sell their own produce. It is possible that when the taxable quantum is brought down to Rs. 5,000 a year, there will be some traders who will not be able to maintain even the elementary accounts which will then be ordinarily required. For such dealers, there should be a scheme of composition under which the liability to tax is assessed on the basis of the purchases made; some States have schemes of this kind even at present. The returns and forms to be prescribed for this wide-based multi-point tax will necessarily have to be simple and easily understandable.

4. A low rate of multi-point tax of the type proposed by us will secure the object of making low-income groups contribute to the exchequer according to their capacity; by itself, of course, it will not constitute an adequate system of sales tax for any State. The present rates of sales taxes on ordinary goods vary from six to nine pies in the rupee. For these States, a tax at the rate of half per cent. or roughly a pie in the rupee is not going to yield the existing revenue derived by them at these higher rates, even though the taxable quantum of turnover will be lower and the exemptions withdrawn. Secondly, a low rate of half per cent. on all goods would leave the higher income groups comparatively unaffected. To this extent, the sales-tax system will be inequitable and discriminatory in favour of the middle and higher income groups. For both these reasons, a tax at a higher

Rates of tax

rate on traders in organised business and on goods other than those consumed by the common man is essential. The best method of levying a tax at a higher rate is under a single-point system, with the point of levy, ordinarily, at the last stage of sale. If the taxable quantum is fixed at a relatively high limit, say Rs. 30,000 a year, (there will of course have to be slight variations of this for different States) the dealers liable to this tax will largely be from urban areas and of a class that will be better able to maintain accounts than the petty dealers whose obligations will not extend to beyond the proposed multi-point levy. The single-point tax at the last stage of sale will, as we have already stated, be in addition to the multi-point tax which will be the basic levy. The rate of the single-point tax and the taxable quantum of the dealers liable to this tax will have to be determined by each State in accordance with its revenue requirements and other circumstances after taking into consideration the likely realisations from the basic multi-point tax. The higher rate of the single-point tax will apply to goods other than those entering the cost of living of the poorer classes. As the dealers liable to this tax will be those above a relatively high turnover limit, they should not ordinarily experience difficulty in maintaining detailed accounts of total sales, sales to registered dealers, sales of exempted goods, etc. The single-point levy need not necessarily be uniform on all types of goods. As at present, some of the 'luxury' articles can and should be subjected to higher rates of levy. There are however some States which do not make any distinction between ordinary and 'luxury' articles. We suggest that these States impose higher rates or tax on 'luxury' goods. We also suggest that States which have already enforced such differential rates should enlarge their list of luxury articles.

5. Certain articles will of course have to be exempted from the single-point tax. Each State will have to determine its own list of exemptions on the basis of its revenue needs and of the economic conditions, social habits, etc., of its people. Only some broad principles can be indicated. The most important exemption, so far as the single-point part of the system is concerned, would be foodgrains. The low-income groups spend a very large percentage of their incomes upon food and they would already be paying the multi-point tax on this under the proposed system. Secondly, such exemption has the advantage of minimising the effect of discrimination in favour of agriculturists who grow their own foodgrains and are not treated as dealers liable to tax. In addition to the exemption of foodgrains, some States exempt necessities like vegetables, fruit, milk, kerosene, fuel, etc. Other types of exemptions are related to educational purposes, or are given for the purpose of encouraging co-operatives, cottage and village industries, agricultural production, etc. While the objects with which exemptions are granted are laudable, each exemption reduces revenue and to that extent may necessitate an increase in the rate of tax on other goods. It also widens the scope for evasion. There is, therefore, good reason for limiting the exemptions to a few large and well-defined classes of goods. Generally, the exemptions under the single-point system should be confined to commodities which figure substantially in the cost of living of the poorer sections. To this general rule, an exception has to be made in the case of raw materials sold by the producers themselves. This is necessary partly for administrative reasons (especially where the

producers are individually small and together very large in number) and partly in order to ensure that the final products do not bear an unduly heavy burden of tax, once at the raw material stage and again at the stage of finished goods. Apart from this, sales tax concessions are hardly a suitable method of encouraging particular industries, trades, activities, etc. Even where such encouragement through tax concession is deemed to be both essential and in conformity with national economic policies, care should be taken to ensure that the exemption does not lead to evasion or abuse. Exemption of products of cottage industries like handloom woven cloth may be provided for only in the context of their sale by the producers themselves or their organisations, as a general exemption in favour of these creates difficulties for the trader and for the administration and very often results in the misuse of the concession. Exemptions which are vague or undefined, or are liable to be interpreted in more than one way, are always a source of harassment to the traders and lead to corruption of the officials. It is necessary, therefore, that the exemptions should be expressed in terms of well-defined categories of goods which both the trade and the administration can readily understand. The lists of exemptions of several States contain items which are related to the prices of the commodities; i.e., the exemption becomes operative only when an article belonging to the general category is sold at below a specified price. This adds to the confusion, occasions complications in accounts, and thus often results in evasion of the tax. As assessments are usually made by the Sales Tax Department more than a year after the close of the period to which they relate, it is difficult to determine whether the sales for which exemption is claimed were really of the types provided for in the exemption list. States should therefore desist from notifying exemptions of this kind. This observation applies to all exemptions which, while serving very little purpose in themselves, add to the cumulative inconvenience and harassment of the dealer.

6. One effect of the above scheme, i.e., a basic multi-point tax of half per cent. with a single-point tax on higher turnovers at rates suitable to the various States, should be an increase in the sales tax revenue of State Governments. For the States which at present levy a single-point tax, the realisations from the basic multi-point tax will be an addition to their present revenue from their tax. The States which at present levy a multi-point tax will however have to reduce their present rate of tax to a suitable level, but their loss from this reduction in rate will, we believe, be more than made up by (i) the additional single-point levy on turnovers (including higher rates on 'luxury' articles) and (ii) the extension of their multi-point tax to dealers with turnovers much below their present level and to sales of all goods without exception. For Bombay, which is a rather special case with its two-point tax, one of the implications is that its present levy of three pies in the rupee at the first stage of sale has to be replaced by the proposed basic multi-point tax at half per cent. The turnover limit prescribed at present in Bombay is Rs. 25,000. Under the basic multi-point system, this limit will be reduced to Rs. 5,000. The decrease in revenue consequent on foregoing the first-stage tax of three pies in the rupee will, we believe, be more than made up from the multi-point tax at all stages of sales of all goods by dealers having annual turnovers over Rs. 5,000. The last point levy and the 'luxury' tax rates will, unless

**Financial effects
of proposal**

the State Government takes a decision to the contrary, remain unaffected. On our estimation of the possibilities, therefore, the adoption of the flexible pattern recommended by us will mean that every State will gain in revenue, in addition to achieving a simpler and more rational system for the different classes of its dealers. Over and above this, there will be the gain from that part of the proceeds out of the Central tax on inter-State transactions which each State will get under the proposals we have made. Finally, there is the financial gain accruing from the substantial reduction which we believe will be effected, as a result of these proposals, in the very considerable evasion which now takes place in inter-State trade.

Advantages of proposed scheme of sales tax

7. The adoption of the scheme suggested above by the different States, will make it unnecessary for them to resort to the taxation of non-resident dealers, as they do at present on the basis of the interpretation they place on the Supreme Court's ruling in respect of Article 286. The difficulties created by these attempts of different States to tax non-resident dealers have already been explained. We have also indicated how a purchase tax on resident dealers, in place of a sales tax on non-resident dealers, will not meet the objectives underlying the incorporation of Article 286 in the Constitution. In the event of our recommendations being accepted, it would be imperative that the States do not attempt either to tax non-resident dealers or to introduce a purchase tax even during the interim period, i.e., during the time taken to carry out the necessary Constitutional and legislative measures for implementing the scheme proposed by us. We would urge the desirability of the different States maintaining, in regard to their sales tax levies on inter-State transactions, the position which prevailed before the Supreme Court gave its judgment on Article 286. This view would apply even with greater force to action taken or contemplated to recover tax on sales by non-resident dealers even during the period prior to the date of coming into force of the Constitution on the ground that the then existing provisions of their sales tax laws entitled them to make such a levy. Whatever the legal justification of this course, it will, in our opinion, be unfair to recover sales tax on old transactions on which according to the then prevalent system no tax was claimed and presumably no additional payment was realised from consumers at the time of sale. It will be appropriate, we suggest, for State Governments to desist from such action against non-resident dealers, and thereby to facilitate the speedy implementation of the scheme proposed by us.

Administration of sales tax

8. We may now turn to the administration of the sales tax. It is true that all taxes are unwelcome and that no tax can be rendered popular by good administration; but few taxes can be rendered so unpopular by bad administration as the sales tax. The point has to be firmly grasped that a sales tax system which is avoidably unwelcome is to that extent avoidably inefficient. The sales taxes of different States can be rendered less unwelcome in proportion as legislation is less ambiguous, regulation less complex, assessment less dilatory and, in more general terms, administration at various points less open to the charges of inefficiency and corruption. We are convinced that a considerable part of the position of the trade and industry to the sales tax levies in every State is a result of the methods of

administering the tax. We cannot wholly discount the allegations made to us in several States that there was corruption in the administration of the tax or that evasion was on the increase; and we have evidence to show that assessments have not been prompt and that arrears are on the whole mounting. It is perhaps hardly necessary for us to point out: firstly, that corruption penalises the honest person and tends to demoralise him; secondly, that the person who pays the sales tax is, by and large, the trader; and thirdly that in this class, as indeed among others, the honesty that is present needs careful nurture, rather than persistent discouragement, even if only in the interests of the exchequer. It is imperative, therefore, that prompt and vigorous steps should be taken to uproot corruption in the administration of the sales tax. One of the main roots of that corruption is in the complexities of enforcement and the desire on the part of the traders to seek escape from these. Unless, therefore, rules and procedure are understandable, unambiguous and capable of easy compliance, it will be difficult either to reduce malpractices and corruption or to increase the efficiency of the Sales Tax Departments. We have indicated in the earlier chapters how States which began with a simple system of either a multi-point or a single-point tax, have later, on revenue considerations, made their systems unduly complicated by the incorporation of new and complex features, and how all this has added to the difficulties of both trader and administration and resulted in much evasion and large arrears, besides general demoralisation among those affected. We believe the adoption of the pattern we have recommended will result in reducing, from the point of view of the specific classes of dealers concerned, and therefore for administration generally, many of the complexities which now beset the sales tax systems of different States. It is nevertheless necessary to consider specific problems and difficulties in some detail.

9. The items to be considered may be broadly classified as relating to (i) regulation and (ii) administration. Not all the requirements of tax collection are mentioned in the Act imposing the tax. Some of them are specified in the Rules framed under the Act. In some States, many substantive provisions which ordinarily should have been included in the Act find a place in the Rules. Most of the Acts provide for prior publication of draft rules and amendments of rules so that public criticism may be taken into account before their promulgation. There have, however, been complaints that the time allowed to trade, industry and the public to study the modifications proposed from time to time is often inadequate. Complaints have also been made that changes in the Rules are frequent and are made before trade has had time to adjust itself to new requirements. We bring this to the notice of State Governments.

10. Some of the basic items of regulation concern (a) registration or licensing of dealers, (b) procedure relating to exemptions, (c) maintenance of accounts, and (d) submission of returns and payment of tax. Whatever the system of sales tax, all dealers liable to the tax are registered. Under the multi-point tax, the registration ensures a certain degree of control over the dealer, while under the single-point

tax it also helps to determine the point of tax liability. The procedure relating to exemptions, however, is more difficult. In the single-point system, the requirements to be complied with are more than in a multi-point system. Exemptions of sales to registered dealers require the maintenance and the production of proof to show that the sales are, in fact, to registered dealers. Similarly, exemptions of sales of goods despatched to addresses outside a State require the production of evidence to show that goods have actually been despatched and delivered outside the State. Sales of goods exempted under the Act or under the Rules also involve the keeping of elaborate accounts, proofs, etc., for satisfying the assessing authorities about the *bona fide* character of such transactions. Every registered dealer has to maintain his accounts and other documents relating to his business in a satisfactory manner for the inspection of the assessing authorities. Where these are not so kept, the Act gives power to the authorities to prescribe the form in which they should be maintained. Further, the account books and other records have to be preserved till the assessments are completed. Some States have assumed power to call upon dealers other than registered dealers to maintain proper accounts. The submission of returns and the payment of tax have to be made periodically. The returns require the separate classification of turnovers of different categories, e.g., sales to registered dealers (in single-point system), sales of exempted goods, sales of goods despatched outside the State, sales of goods liable to different rates of tax, etc.

11. In regard to these requirements, the complaints of the trade and of industry centre round exemptions, accounts and returns. A valid difficulty, to which our attention has been drawn in many States, arises from the loose and often ambiguous language in which some of the exemptions are couched. Much hardship, it is pointed out, is caused when a *bona fide* interpretation by the dealer is later challenged by the taxing authorities. Also, there are exemptions which are conditional on the sales being for certain purposes, or their being only to certain classes of buyers and so on. These increase the difficulties of the dealer who often finds himself in the position of having to pay the tax on sales on which he had not himself recovered any tax. It is necessary that exemptions should be definite in scope and not dependent on conditions which require elaborate proof. We have already referred to this point and would stress it again in the context of eliminating from the tax all such features as unduly or unnecessarily add to the burden of tax compliance. When a dealer is taxed on all his sales, the keeping of accounts for assessment of tax is comparatively simple; but when some sales of goods are taxable and others are not, the keeping of accounts and the submission of returns present difficulties which may be administratively unavoidable, but which, by the same token, administration ought to keep to the absolute minimum. The same observation applies to the requirements connected with 'luxury' goods on which higher rates of taxes are levied.

12. The complexity of accounts is one of the main grievances of the dealer. Difficulties arise even in multi-point systems, as when the tax is levied at different rates on luxury goods or is imposed at only some stages, and not at others, on some goods. The complaints

we have received from the smaller traders seem to us particularly valid. The State Governments have generally recognised these difficulties. They have, for example, refrained from prescribing specific forms of accounts for purposes of the sales tax and have allowed dealers to adhere to their own methods of keeping accounts. For small traders, many States have provided a scheme of composition under which the assessment of tax is made on the basis of documents relating to purchases, etc. In regard to the submission of returns and payment of tax, these have, in most States, to be made every quarter, though in some States they have to be made monthly. Such frequent submissions become an unnecessary burden on dealers whose business consists mainly of exempted goods. While, therefore, too long a period for all dealers would not be advisable as it may lead to evasion of tax on a larger scale, an exception can be made in the case of the smaller dealers. Further, a half-yearly period for submitting returns and for payment of tax would be more suitable for this class of dealers.

13. Passing on from regulatory provisions to specific aspects of administration, we have to consider the Sales Tax Organisation in relation to the following aspects:—

Aspects of administration

- (i) administrative powers of the taxing authorities;
- (ii) assessment;
- (iii) inspection;
- (iv) supply of information; issue of rulings, interpretations, etc.; and
- (v) behaviour towards the public.

The administrative powers of the Sales Tax authorities include those of discretionary assessment where the returns of dealers are incorrect or where no returns have been submitted, of compelling dealers to produce their books of accounts, of inspecting them at the premises of the dealers, of seizing them where they suspect the dealer of evading the tax and of searching the premises of the dealers for books of accounts, etc. The Sales Tax Acts also empower the Collector or Commissioner of Sales Tax (Commercial Taxes in certain States) to determine certain disputes such as whether a particular dealer is liable to registration, whether any particular sale is taxable, etc. The Sales Tax Authorities enjoy, in certain respects, wider powers than the Income-tax Authorities. It is obvious that powers of this kind, most of which can be abused and many of which can result in needless harassment unless exercised with restraint, should be vested only in officers of adequate seniority and rank. Fortunately, the State Governments are aware of the dangers of delegating wide powers to subordinate officers of the Sales Tax Department and the complaints made to us in this respect are not many. We need hardly stress the need for vigilant watch by the higher authorities over the exercise of these powers.

14. As indicated earlier, assessment is in arrears in most States. While the delays are partly due to the numerous adjustments and modifications made in the sales tax systems, they are, in some States, traceable to the inadequacy of the staff itself. Unless the dealers are assessed promptly within a short period after the close of the year, they are

Delays in assessment

put to much inconvenience. Sometimes points of dispute arise and, in order to settle them, various types of evidence and attestation may be required: *e.g.*, declaration certificates of purchases made, supplementary documents regarding sales and so on. The greater the delay in assessment, the more troublesome and intractable are the disputed items from the point of view of both dealer and administration. If, as is sometimes the case, the assessments are delayed over a number of years, it is impossible for the dealer to obtain the necessary evidence, documentary and other. While the honest dealer thus suffers, the delay helps the dishonest dealer in many ways, *e.g.*, by giving him time to shift his place of business or to disappear from the State altogether. One more point may be mentioned. The collection of outstanding amounts, *e.g.*, those based on the final assessment, would be easy if this is done shortly after the close of the year; otherwise, in many cases they would not be recovered at all in spite of the legal provision that arrears of sales tax may be recovered as arrears of land revenue. To the extent that, in certain States, the heavy arrears in assessment are due to inadequate staff, it is necessary that the establishment should be strengthened. Apart from other considerations, since the Sales Tax is a major source of revenue, any false economy in this matter will be positively harmful to the public interest.

15. While on the one hand assessment has lagged behind, inspection and investigation have not received the attention which they should. In many States, the same staff is expected to do both assessment and inspection and the latter is either not done at all or indifferently done; in a few States—though even in these not to an adequate extent—the Sales Tax authorities do pay surprise visits to dealer's premises, make confidential enquiries about dealers' turnovers and investigate the purchases and sales of one dealer by reference to the returns and documents submitted by other dealers. In certain countries, the two functions are treated as distinct and the inspecting staff is different from the assessing staff. In Canada, for instance, the inspecting officer also acts as a liaison man with the dealers in the area, calling on them, answering their questions and showing them how to keep accounts according to the requirements of the administration. This is an aspect of Sales Tax administration which in India still awaits development. The maintenance of a separate inspection staff to detect evasion and find out the evading dealers and also to serve as a liaison between the department and the dealers is extremely desirable. This would reduce evasion and help the dealers to comply better and more promptly with the requirements of the administration.

16. There is a good case for the creation of an Intelligence Section in every Sales Tax Department. The duties of this section would include the maintenance of necessary statistics, *e.g.*, about the pattern of trade and consumption in the State on the basis of the sales tax returns received by the Department. Detailed information about the different types of traders in the State, classification of tax receipts according to realisations from sales of different goods in the State and outside the State, etc., would be of great value to the State Governments in determining their tax policy, list of exemptions, etc. The Intelligence Section could also help in checking evasion by obtaining relevant

information from the Railways, Customs, Central Excise, Income-tax and similar authorities of the Union Government about the business of the dealers liable to the sales tax.

17. In administering the provisions of the Sales Tax Acts and Rules, the Sales Tax Department has on several occasions to give opinions as to the leviability of tax on a particular sale or on a particular class of dealer, to specify the elements of proof required in certain contexts and so on. The opinions are expressed in response to individual inquiries, but no rulings or instructions are made available to the trading community in general. The work of dealers and of the Sales Tax Department as well will be facilitated if such rulings and instructions are published at regular intervals for the information of those concerned. The provisions of the Act and the Rules, clothed as they invariably are in legal form and language, are not clear to a majority of dealers. For the information of these, it is the duty of the Sales Tax Department to issue small pamphlets (if necessary as priced publications) in regional languages, setting out in clear and readily understood terms the variation of tax liability, the classes of exemptions, the contexts in which higher levies are made, the broad particulars of procedure connected with the filling in of returns and payment of tax, and so on. Associations of traders sometimes issue pamphlets for the information of their members. But there is considerable need for authoritative pamphlets on procedures being published by the State Governments themselves.

18. The behaviour of sales tax officers, inspectors and staff towards assesseees and the public is a matter of great importance. While some of these are tactful and courteous in their dealing with traders and others, there are several who have yet to learn the lessons of polite behaviour. Firmness in securing the interests of the public revenue does not consist in downright disbelief of the dealer's statements, inquisitorial investigation of odds and ends in his accounts and, in general, an attitude of determined discourtesy towards the assessee. Appreciation of the *bona fide* difficulties of traders, guidance in proper compliance with the requirements of the tax administration and courteous behaviour are certain to go a long way towards making the sales tax departments less unpopular than they are at present.

19. Before passing on to evasion in a few of its more detailed aspects, we may refer to one specific problem which in some ways is connected with evasion. The consumer, as we have seen, is concerned with the burden of the tax; he is also anxious that the dealer does not cheat him by charging more than the proper tax. Most State Governments have therefore provided in their Acts and Rules that, where cash memos or vouchers are issued, the price and the tax should be separately shown and the latter limited to what is actually payable by the dealer. If more is charged than due by way of tax, or if a tax is charged when none is leviable, the dealer is liable to be prosecuted. As a corollary, unregistered dealers from whom the tax is not collected by Government are prohibited from indicating a tax element in their vouchers. The position, however, is full of anomalies. For obvious reason, no State Act lays

down that the sales tax should be passed on by the dealer to the consumer. It is the dealer on whom the tax is levied and, strictly speaking, it is his own business whether or not, and by how much, he increases his sale price on this account. Nevertheless, State Governments tacitly accept the practice whereby registered dealers purport to charge their customers separate amounts as sales tax. Where dealer and buyer do not collude, the buyer suspects evasion on the part of the dealer if the latter omits mention of sales tax in the voucher, and the dealer for his part is often anxious, through specification of tax in the bill, to point out in effect to his customers that they are being mulcted by Government and not by him so far as that particular amount is concerned. This method of satisfying the customers is however rather unfairly denied to the unregistered retailer who, all the same, has to pay the tax on his purchases from registered wholesalers, and sell the goods at more or less the same price as the registered retailer. Moreover, the practice of showing the tax separately in bills leads to the customer bargaining for his not having to pay it, and to the dealer offering not to charge it provided a voucher is not insisted on, the result being collusion and evasion. It seems to us desirable, in these circumstances, that separate mention of the tax in the bill should be discouraged by State Governments, or at any rate, not seem to receive their specific approval. The law of demand and supply and the price levels in the market will themselves be limiting factors on the dealers' attempts to overcharge. Issue of vouchers and cash memos, however, should be made compulsory for registered dealers, or at any rate, for such of them as have a turnover which exceeds a prescribed level. This would be specially appropriate for the single-point levy.

20. Evasion and avoidance of tax are occasioned by various contexts and reasons (some of which have already been incidentally referred to) such as:

Evasion and avoidance of tax

- (1) constitutional restrictions; नयन
- (2) lack of definiteness and precision in specifying categories of either special goods or exemptions;
- (3) collusion between dealer and his customer; and
- (4) administrative complexities.

Earlier, we have discussed the scope for avoidance of tax which has arisen under the operation of Article 286 in its bearing on inter-State trade. We believe this will be substantially reduced if our main recommendations are adopted; as already explained, one of the objects of our proposals is to eliminate the incentive which now exists for consumers and unregistered dealers in one State to buy from the dealers of another State when ordinarily they would have bought from registered dealers of their own State. In regard to the second category mentioned above, many of the State Acts and Regulations are themselves partly responsible for the evasion. Thus, as a rule, when exemptions (or higher rates) are related to prices below (or above) certain specified limits, instead of to the whole of a precisely definable class of goods, scope is afforded to the dealers to under-price the goods in their bills or books of accounts and in that manner evade the tax. It is therefore necessary to keep 'price' categories, as distinguished from 'class' categories, to the bare minimum, if indeed they cannot be eliminated altogether; further, in defining 'class' categories, it is necessary not only to be

proceeds in the legal sense, say to take into account various considerations, including the simplicity and definiteness required, from the point of view of both trade and administration. We have already dealt with this in connection with exemptions. We have also referred to collusion between dealer and customer; so far as the former is concerned, it may be emphasised here that it is not just sales tax but also income-tax which the dealer is anxious to evade by not giving vouchers and not including certain transactions in the accounts he maintains. The complexities introduced from time to time into the different sales tax systems are responsible for an appreciable degree of evasion and avoidance. Several rules and regulations made for the purpose of reducing evasion, widening concessions, or increasing revenue involve the maintenance of complicated accounts and the submission of detailed returns by way of proof or evidence. Where these requirements are not fulfilled, the dealer runs the risk of paying the tax from his own profits. This is only one aspect of a context in which bribery and corruption have readily assumed serious proportions. There is great need—and considerable scope—for simplifying the administrative requirements, including accounts, forms of return, etc. Further, it is necessary to pay much more attention than at present to supervision, including surprise checks, by the higher officers of the Department. Similarly, assessments made by the lower officers should be test-audited more frequently. Another direction in which the problem of evasion can be tackled is for the State Governments to make arrangements with the customs and railway authorities for exchange of information; there could also, in the same connection, be much greater co-ordination between the Sales Tax Departments of different States. Sometimes co-ordination is lacking even between different Sales Tax Offices within the same State. We shall later revert to the question of co-ordination. Meanwhile, among the methods of evasion practised, may be noticed the following two categories:—

- (1) Manipulation of accounts; omission of some of the taxable sales from books and records; suppression of other transactions (e.g., purchases) in the light of which the sales can be verified; under-estimation of production, imports and sales by manufacturers and importers; falsified entries in declaration forms and certificates; showing separately sales of bullion and sales of services even when ready-made gold and silver ornaments are sold; and
- (2) Carrying on business without registration; splitting up of business so that the turnover may be below the taxable limit; changing place of business, name of firm, etc., when assessment becomes due, or disappearing altogether from the jurisdiction of the particular State.

21. Various attempts are made by State Governments to prevent such evasion. Under the sales tax statutes, powers have been given to the sales tax officers to search the dealers' premises, to seize their books, etc. Heavy fines and cancellation of registration certificates are also prescribed as penalties for evasion of tax. Evasion continues in spite of these, and experience has shown that the more complicated the tax system, the more the prevalence of evasion and the greater the scope for corruption.

22. For the maintenance of a proper liaison with the trade and industry, it is necessary that the Sales Tax Department should maintain some contact with the chambers and associations of different trades, industries and commerce and get their advice and help in administering the tax. It is obviously neither possible nor desirable that sales tax officers should directly deal with all such associations. A small Committee representing the important sections of trade, industry and the consumers would serve this purpose much better. Such Committees have been established in one or two States and are reported to have proved successful in meeting the grievances of traders and ensuring their co-operation in the administration of the tax. We recommend that in each State there should be a Sales Tax Advisory Committee consisting of the representatives of different trade interests. It is necessary to lay down that the sales tax matters discussed by these Committees should be those of general interest to the trade and not items of individual dispute or grievance relating to particular assessments or particular dealers.

23. It is necessary that there should be an independent authority in each State to decide the final appeals on sales tax disputes between the Department and the dealer. In most States, at present, the appeals lie to the higher executive authorities; but these do not create the same confidence in the minds of the dealers as an independent appellate authority would. Some States have already established such independent Sales Tax Tribunals in their States; and these are reported to be working satisfactorily. These Tribunals consist of senior persons having judicial, accountancy and business experience. We recommend the establishment of such tribunals in all States.

24. We have already dealt with the constitutional and legal aspects of co-ordination between the Union and the States in matters pertaining to the regulation and levy of the sales tax. In the administration of the tax, there is constant need for exchange of information between one State and another. Further, there are occasions when it is necessary to have consultations with the Sales Tax Departments of other States on specific matters of common interest and on general problems affecting more than one State. Moreover, any exchange of information regarding the methods of assessment, maintenance of accounts and other procedural matters is likely to be very useful in improving the efficiency of the Department as a whole, and making it a more useful instrument of tax collection. It is hence desirable that there should be meetings of the heads of Sales Tax Departments of all States at least once a year to have discussions on topics of mutual interest. We recommend annual conferences for this purpose under the auspices of the Inter-State Taxation Council the creation of which we propose elsewhere in this Report. The representatives of the Central Government would also, of course, have a definite part to play in such conferences.

25. Finally, we would make the concrete suggestion that the Inter-State Taxation Council should undertake the task of introducing as much uniformity as possible, between different States, in the matter of sales tax law, regulation, procedure and forms

in so far as these can be distinguished from, or are not concerned with, actual rates, turnover limits, exemptions, etc. At present, the definitions of terms like 'dealer', 'sale price', 'turnover', 'year', etc., differ widely from State to State. This leads to their interpretation and judicial construction being different in different States and creates unnecessary complications and hardships to the trade and industry, particularly in regard to inter-State transactions and for dealers who have branches in more than one State. The procedure for filing returns and payment of tax, for assessment, for appeals and revision, etc., and the regulations regarding maintenance and inspection of accounts also vary considerably between the different States. The same lack of uniformity is to be found even in the forms of returns, forms for refunds and adjustments, the type of evidence to be produced for sales outside the State, etc. Without conferring any advantage whatsoever on individual States, this diversity in regulation and procedure creates many avoidable difficulties for trade, commerce and industry. In forms and procedure, in particular, and even in regard to the structure of different Sales Tax Acts and in the definitions adopted in them—though not, as we have stated, in rates, exemptions, registration limits, etc.,—it is not only possible but extremely desirable that as large a measure of uniformity as feasible should be aimed at and achieved. We consider that the Inter-State Taxation Council, as soon as it is established, should take this up as one of its very first tasks in the context of the sales tax.

CHAPTER VI

STATE TAXES ON MOTOR VEHICLES AND MOTOR SPIRIT

In this chapter we propose to consider the taxation of motor vehicles and motor spirit by itself as well as in its relation to road development. Both motor vehicles and motor spirit are subjected to different types of taxes by different authorities. While the imports of motor vehicles, accessories and spare parts and the imports of motor spirit are liable, along with the imports of other goods, to the customs duties levied by the Government of India, motor spirit, power alcohol and tyres and tubes manufactured within the country are liable to Central excise duties. Then, there are the State taxes such as motor vehicles tax, tax on sales of motor spirit and sales tax on motor vehicles and their spare parts and accessories. Lastly, there are local taxes like wheel tax, and tolls. The items of taxation with which we are specially concerned in this chapter are the State taxes on motor vehicles and on motor spirit.

2. The receipts from motor vehicles tax and sales tax on motor spirit for all the States are as shown below:—

		(In lakhs of Rupees)	
		1953-54	1954-55 (Budget)
<i>Motor Vehicles Tax</i>			
Part A States		10,48	10,45
Part B States		2,34	2,41
Part C States		32	32
TOTAL		13,14	13,18
<i>Sales tax on motor spirit</i>			
Part A States		6,47	6,52
Part B States		1,13	1,26
Part C States		1	1
TOTAL		7,61	7,79

All the States in India levy the motor vehicles tax; the rates, however, vary considerably from State to State. The tax on the sales of motor spirit is levied by all Part A and Part B States, and by Coorg, Himachal Pradesh, Manipur and Vindhya Pradesh among Part C States.

3. The motor vehicles tax was first levied on an all-India basis in the form of fees under the Indian Motor Vehicles Act of 1914. The Act was primarily concerned with the regulation and control of motor traffic and only incidentally with the taxing of motor vehicles. Different fees were levied under it for registration, permits, driving licences, etc. The fees were increased from

time to time. Motor traffic expanded greatly after the first World War. This necessitated a very large increase in the expenditure on roads which State Governments and local authorities had to incur. To examine the requirements of a programme of road development and the financial resources available for the purpose, the Government of India appointed in 1927 the Road Development Committee. One of the findings of the Committee was that "road development in India is passing beyond the financial capacity of Provincial Governments and local bodies and is becoming a national interest which may, to some extent, be a proper charge on Central revenues". The Committee recommended that the Central Government should levy a special tax of two annas on motor spirit and credit the proceeds to a Central Road Fund. It also recommended that the States should explore the possibility of imposing a tax on motor vehicles for financing road development. These recommendations were accepted by both the Government of India and the States. In 1930, the Government of India imposed an additional tax of two annas on motor spirit and created the Central Road Fund out of the proceeds. The States, for their part, enacted separate measures for imposing taxes on motor vehicles.

4. While recommending the taxation of motor vehicles by States,

**Recommendation
regarding motor
vehicles tax**

the Road Development Committee also suggested that the tax should be a consolidated one and that separate levies like tolls should be withdrawn. It stated: "In our opinion the objection to tolls goes far beyond the obstruction to motor transport. We have received ample evidence of the harassment to traffic of all kinds and there is a strong demand that tolls should be altogether abolished. It may be argued that tolls are paid in direct proportion to the use made of the road and that they are paid in small sums which the road user can afford and that they are traditional to the country and cannot be readily replaced by any other form of taxation. An additional objection is the practice of farming tolls which diverts a considerable part of the receipts to the farmer. We may, however, express a hope that tolls on all traffic will be abolished as soon as possible and be replaced when necessary by some form of taxation that is less vexatious to road transport". In accordance with this recommendation, the States imposed higher taxes on motor vehicles and, wherever feasible, abolished the taxes levied by the local authorities. In some instances, municipalities were allowed to continue to levy wheel taxes. The local bodies which suffered loss by the abolition of their own taxes on motor vehicles were compensated by the State Governments out of the proceeds of the State motor vehicles tax. In some States, e.g., Bombay and Uttar Pradesh, it was decided to credit a part of the proceeds from the tax on motor vehicles to a special State Road Fund. In other States, the practice continues to be that of crediting these receipts to the general revenues without specific earmarking.

5. Under the Constitution, while the taxation of motor vehicles:

**Motor vehicles
tax : prese
position**

is in the State List (Entry 57 in List II), the subject "mechanically propelled vehicles including the principles on which taxes on such vehicles are to be levied" is included in the Concurrent List (Entry 35 in List III). No legislation in regard to these principles has so far been enacted by the Union. The basis of the motor

vehicles tax varies from State to State. In some States, goods vehicles are taxed on the basis of unladen weight, in some on the laden weight, and in a few others on the authorised load. Private motor cars are taxed either on unladen weight or according to seating capacity. Passenger buses are generally taxed on the basis of their seating capacity. The rates of tax differ very widely, as will be seen from the comparative table below for a few of the States:—

TABLE 1.—*Rates* of motor vehicles tax*

Selected vehicles	Madras	Assam	Bombay	Orissa	West Bengal
	Rs.	Rs.	Rs.	Rs.	Rs.
1. Medium car if used—					
(a) as taxi	300	80	272	480	250
(b) for private purpose	156	80	120	150	120
2. Passenger buses—					
(a) 30-seater	3,000	375	1,072	3,600	1,240
(b) 40-seater	4,800	625	1,392	4,800	1,460
3. Goods vehicles with laden weight of—					
(a) 5,600 lbs.	800	210	480	900	210
(b) 11,200 lbs.	1,172	360	960	1,320	365
(c) 20,160 lbs.	1,708	600	1,800	1,920	810

*The rates shown do not include the 'wheel tax' levied by local bodies.

6. The sales tax on motor spirit was first imposed in India in 1937. The first Province to levy a tax on the sale of motor spirit was Central Provinces and Berar and its example was soon followed by other Provinces e.g., Madras, Bombay and Bengal. Today, except for a few Part C States, every State in India levies a tax on the sale of motor spirit. Most States have separate Acts for the levy of a sales tax on motor spirit, though a few States, e.g., Madhya Bharat, Travancore-Cochin, Delhi and Vindhya Pradesh, levy it as part of their general sales tax. Like the motor vehicles tax, the rates of tax on sales of motor spirit also differ from State to State as shown below:—

TABLE 2.—*Rates of sales tax on motor spirit*

States	Rates of levy		Remarks
	Per gallon	Per rupee	
Bihar, Bombay, Madras, Orissa, West Bengal and Mysore } Travancore-Cochin	6 annas ..	.. 21 pics	This rate of tax is imposed on the first stage of sale; subsequent stages of sale are taxed at 3 pics per rupee.
Saurashtra	4 annas	..	
Assam, Punjab, Hyderabad, PEPSU and Himachal Pradesh } Uttar Pradesh and Coorg	3 annas 2 annas	.. ..	
Madhya Pradesh	..	2 annas	
Madhya Bharat and Vindhya Pradesh } Delhi . . . . .	.. ..	1 anna 1/2 anna	

7. As the taxation of motor vehicles and of motor spirit has a significant association with road development, it is necessary to assess the extent and the financial implications of the road development requirements of this country. The first attempt to analyse the problem of road development on an all-India basis was made in 1943 when, at a conference of Chief Engineers held at Nagpur, a planned programme of development of roads was drawn up for India as then constituted. The 'Nagpur Plan', as this came to be known, envisaged a ten-year programme for increasing the total mileage of hard surface roads as follows:—

TABLE 3.—Road development under the 'Nagpur Plan'

	Increase in mileage (000 miles)	Cost (in crores of Rupees)
National Highways	20	48
Provincial Highways	59	118
District Roads	135	122
Village Roads	150	30
	364	318

An important aspect of the Nagpur Plan was that it also aimed at connecting every village in a well-developed agricultural area to the main road. Implementation of the Plan as a whole fell far short of the programme on account of shortage of materials, scarcity of technical personnel and financial stringency. During the period of three years 1947—50, the States spent on roads only about Rs. 27 crores. The Planning Commission in its report estimated that, at the subsequent price levels with which the Commission was concerned, the Nagpur Plan would cost about Rs. 744 crores, of which Rs. 133 crores would be for national highways and Rs. 611 crores for other roads. In its original form, the First Five-Year Plan included a provision of Rs. 97.6 crores for road development; this amount has since been increased to Rs. 131.3 crores. The break-up of the provision between different States is given in Statistical Appendix No. 1 together with corresponding details of the expenditure so far incurred on road development. Broadly, the distribution of the expenditure on road development is as follows:—

TABLE 4.—Expenditure on road development

	Total estimated expenditure on road development 1951—56	Expenditure that will be incurred to the end of 1951—55	Balance
Government of India	41.2	21.2	20.0
Part A States	57.7	53.9	3.8
Part B States	25.8	14.8	5.4
Part C States	6.7	4.3	2.4
TOTAL	131.3	94.2	31.6

8. The Central Government assumed financial liability for the maintenance and development of national highways with effect from 1st April 1947. The schemes in the Five-Year Plan, in so far as these have a bearing on national highways, relate more to the construction of bridges and missing road links than to any large scale extension or reconstruction of national highways. If the State schemes of road development in the Five Year Plan are all implemented, the mileage of metalled roads will increase from 10,007 miles in 1950-51 to 12,453 in 1955-56 in Part A States and from 7,588 miles to 8,129 miles in Part B States. This is far below the mileage envisaged in the Nagpur Plan. The State roads are maintained and constructed from State revenues, supplemented by grants from the Central Road Fund. A few States, as we have said, have their own Road Funds from which a part of their expenditure on roads is met. The development of rural communications in particular has been on a very small scale in relation to the total problem. Some States have no doubt given high priority to the development of village roads in their Plans, but in actual fact, what has been achieved is very little. The local bodies which are in charge of these roads have not even the means to maintain their existing roads properly and any extension of the communications is, in most cases, wholly beyond their capacity. The grants-in-aid given by the State Governments are not adequate for their requirements. The extension of village roads has, generally speaking, been left to local effort and initiative. Part of this consists in the contribution of free labour and free gifts of land or money by the villagers, the other part coming from local bodies and State Governments.

9. The growing expenditure of State Governments and local authorities on the reconditioning of roads which had been greatly damaged during the period of the last War occasioned the imposition of fresh taxes and an increase in the existing rates of taxes on motor vehicles and motor spirit. The multiplicity of these taxes and the wide divergence in the rates led to the appointment by the Government of India in 1950 of the Motor Vehicles Taxation Enquiry Committee. The Committee was appointed to enquire into the existing systems of taxation of motor vehicle-users in India and to recommend—

- (a) the basis of a scientific system of taxation of the motor vehicle-users to ensure the provision and development of cheap, rapid and efficient transport, for different categories of users by the means best suited for the kind of traffic involved and with a view to obtaining proper co-ordination between the different forms of inland transport;
- (b) the method of securing reciprocity in taxation between the various taxing authorities; and
- (c) the principles on which any part of the proceeds of the taxation of motor vehicle-users by the Union and State Governments and local authorities, should be made available for road maintenance and development.

The Committee's enquiries showed not only that the rates of motor vehicles taxes varied widely from State to State, but that there were a number of taxes which were levied in addition such as:

- (i) entrance tax, i.e., a tax on vehicles entering a State;
- (ii) taxes or cesses on passengers and goods carried by roads;
- (iii) permit and other fees levied at rates which made them partake of the nature of taxes;
- (iv) sales taxes at relatively high rates on motor vehicles and their spare parts; and
- (v) a large number of local taxes like wheel taxes, octroi, transit taxes, tolls, etc.

10. The Committee's recommendations aimed, among other things, at rationalising the system of taxation and mitigating its burden. The Committee considered that, in place of the existing multiplicity of taxes, so far as State Governments and local bodies were concerned, there should be only two taxes on motor vehicles, viz., a fuel tax and a motor vehicles tax. The fuel tax, i.e., the tax on motor spirit, would ensure taxation in proportion to use and the motor vehicles tax would provide for other factors like wear and tear of roads, ability to pay, etc. The Committee accordingly considered that taxes other than these two were unnecessary; in many cases, they were inequitable, vexatious and burdensome. It recommended, therefore, that all the other taxes should be abolished. In regard to the burden of tax, the Committee recommended that the fuel tax should not exceed six annas a gallon and that it should be imposed in the form of a surcharge on Central excise duties. The motor vehicles tax was not to exceed the ceiling rates recommended by the Committee. These ceiling rates were lower than the rates of motor vehicles tax prevalent in the State of Madras which had the highest rates in India. It suggested that the basis of the tax on motor vehicles should be:

Motor cycles—flat rates.

Motor cars—unladen weight.

Goods vehicles—laden weight.

Buses—seating capacity.

In regard to other vehicles using the roads, the Committee recommended a road cess of one anna in a rupee of land revenue.

11. For Part A States, according to the Committee, the financial effect of the recommendations with reference to the year 1948-49 would be as shown in Table 5 at page 83.

Consideration of Committee's recommendations The recommendations of the Committee were considered in 1951 by the Transport Advisory Council consisting of the representatives of the Union and the States. While the basis of the tax on motor vehicles recommended by the Committee was

TABLE 5.—*Financial effects of the Committee's recommendations*

States	Proceeds of the taxes of 1948-49				Proceeds of the recommended new taxes				Difference
	Sales tax on petrol	Motor vehicles tax	Local taxes	Luxury element of sales tax on vehicles & accessories	Total	New petrol surcharge	New motor vehicle tax	Total	
Madras	60.27	268.09	—	42.78	371.14	90.41	172.60	263.01	—108.13
Bombay	53.13	104.37	163.73	57.29	382.52	159.39	193.39	352.78	—29.74
West Bengal	81.16	33.55	1.87	—	116.58	81.16	293.17	374.33	+257.75
Uttar Pradesh	26.31	35.49	201.72	13.79	277.31	78.93	110.75	189.68	—87.63
Punjab	7.07	9.32	29.25	—	46.14	14.14	53.75	67.89	+21.75
Bihar	12.12	28.15	—	—	40.27	18.18	63.38	81.56	+41.29
Madhya Pradesh	12.48	25.84	38.75	26.67	103.74	15.76	53.00	68.76	—34.98
Assam	10.53	9.11	0.03	—	19.67	21.06	57.95	79.01	+59.34
Orissa	1.72	16.81	—	—	18.53	1.72	12.42	14.14	—4.39

(In lakhs of Rupees)

accepted, the representatives of such State Governments as levied the motor vehicles tax at relatively high rates were opposed to the proposal to fix the ceiling rates of motor vehicles tax below the Madras rates. In view of this opposition, the Transport Advisory Council adopted a resolution recommending that the ceiling rates for the levy of motor vehicles tax should be at the level of the Madras rates. The ceiling of six annas a gallon for sales tax on petrol was, however, accepted. On the question of abolition of other taxes on motor vehicles, no agreement could be reached. It was accordingly decided that the Technical Committee of the Transport Advisory Council should examine ways and means of implementing the Motor Vehicles Taxation Enquiry Committee's recommendations. The Technical Committee's report was considered by the Transport Advisory Council at its meeting held in May 1953 and the following conclusions were reached:

(i) *Ceiling on motor vehicles tax*: The representatives of the States generally agreed to the proposed ceiling rates at the level of Madras rates being specified in the legislation to be enacted under Entry 35 of the Concurrent List. Their agreement was, however, subject to the condition that the ceiling rates would be reviewed and refixed, if necessary, at the end of five years.

(ii) *Abolition of octroi and other local taxes*: There was general opposition to the abolition of these taxes on the ground that it was wrong to increase the rates of motor vehicles tax and thereby affect the whole State for the purpose of consolidating octroi and other local taxes which affected only the people within the area of the local authorities. It was, however, agreed that the local authorities should levy octroi on goods consumed within their area and no octroi and transit duties should be levied on goods merely passing through the area of the local authorities. All taxes and duties of the latter type, if levied by any local authority, should be abolished.

(iii) *Abolition of wheel taxes*: There was opposition to the abolition of wheel taxes levied by municipalities. The representatives of State Governments agreed to examine the suggestion that wheel taxes might be collected along with motor vehicles taxes.

12. Several representations have been received by us supporting the recommendation of the Motor Vehicles Taxation Enquiry Committee that there should be imposed one fuel tax on motor vehicle-users in place of the different taxes and duties levied on them at present by the States and the local authorities. It is necessary to examine this recommendation in some detail, keeping in mind both the financial implications for the States and the local authorities, who are responsible for road maintenance and development, and the financial burden of the tax on the users of motor vehicles. Since the Committee reported in 1950, several States have increased their rates of motor vehicles taxes, and certain States, e.g., Madras, Punjab, Bihar and Assam, have commenced to levy a tax either on passengers and goods or on goods alone. Several local authorities have increased the rates of their wheel taxes and some of these have started levying octroi and transit duties for the first time. It has been urged before us that the cumulative effect of all these taxes has been to reduce the number of motor vehicles plying on the roads.

**Suggestions received
by the Commission**

The following table shows the number of different types of motor vehicles registered in India during the last four years:

TABLE 6.—*Number of different types of motor vehicles*

Year	Motor cycles	Private motor cars	Taxi cabs	Buses	Goods vehicles	Total motor vehicles
1950 . . .	28,193	1,49,476	8,407	29,443	74,471	2,98,662
1951 . . .	27,105	1,47,953	11,482	34,271	86,509	3,10,145
1952 . . .	27,012	1,47,982	11,788	34,372	82,413	3,08,261
1953 . . .	29,124	1,56,154	13,261	39,449	90,075	3,33,219

The figures do not show any decrease in the number of motor vehicles plying on the roads. There was some decrease in 1952 which has been more than offset by the large increase that took place in 1953.

13. The existence of a multiplicity of taxes on the users of motor vehicles cannot be said to represent a position peculiar to India. Consolidation, of course, has obvious virtues; but it has to be remembered that the consolidation of such of the relevant taxes as are at present unrelated to the ownership or possession of motor vehicles into a higher motor vehicles tax might have the effect of shifting the burden of taxation to persons more or less unaffected by the previous taxes. This applies in particular to the suggestion that octroi and terminal taxes levied by municipalities should be abolished, and in effect merged in a higher motor vehicles tax. There is little connection between octroi and motor vehicles tax. The former is levied on goods while the latter is on the motor vehicle. The desirability or otherwise—and so also the practicability or otherwise—of abolishing octroi and terminal tax have to be decided on grounds which have no special bearing on the taxation of motor vehicles. We are unable to support this part of the Enquiry Committee's proposal in the form and in the context in which it has been made. Our detailed suggestions regarding octroi, transit fees, permit fees, etc., occasioned by the considerations relevant to them, will be found in the section of our Report which deals with local taxes.

14. The wheel tax imposed by municipalities, unlike octroi and terminal tax, is a direct addition to the State Government's own levy on the motor vehicle, viz., the motor vehicles tax. Several considerations, including the convenience of the taxpayer, point to the desirability of the two levies being consolidated into a single one. This is especially so from the point of view of municipalities other than those of the bigger cities: in other words, of all municipalities except the Corporations. Firstly, the motor vehicles 'registered' for the purposes of wheel tax in such municipalities usually operate in areas much wider than the municipal areas themselves. Secondly, motor

vehicles which pay the wheel tax elsewhere (usually in the bigger industrial centres) pass through the areas of more than one municipality and make use of the roads provided by them without contributing to the revenues of such municipalities. In broad principle, what each such municipality is entitled to is a share of the proceeds of a wheel tax collected over a much larger area and divided in proportion to the extent of the use made of its roads by *all* motor traffic, whether or not the vehicles belong to persons resident in the municipal area. The factors relevant for this purpose would be the mileage of the municipal roads and the volume of motor traffic (through or local) making use of such roads. It should not be difficult to work out a formula for distribution of proceeds on this basis and, for purposes of applying it, collect and periodically revise the necessary statistics of road mileage and (through sample surveys) of motor traffic for the different municipalities of the State. So far as such municipalities are concerned, therefore, we recommend: (1) the abolition of the municipal wheel tax on motor vehicles, (2) an appropriate increase in the motor vehicles tax levied by the State Government, and (3) the apportionment of the proceeds relatable to a suitable fraction of such higher tax between the different municipalities concerned on the basis of the formula and the data referred to above. We refrain from specifying the fraction or concerning ourselves with the details of the formula and the data—it is impracticable to lay down any of these in terms which are uniform for all States—but we recommend that the distributable proportion of the higher tax should be one which, if it errs at all, errs on the side of liberality to the municipalities.

15. The arrangements we have described above are not intended to apply to the municipal corporations. Corporations in the big cities, which are also usually the centres of industry and business, construct roads of a relatively high standard and incur large expenditure on their maintenance. Any grants allocated to them from the proceeds of the motor vehicles tax on the same scale as for other municipalities would be wholly inadequate for their requirements; moreover, if allocations to corporations are made out of the same funds, it would be difficult to ensure adequate grants to the other municipalities. We are, therefore, of the view that corporations should be permitted to levy separate wheel taxes, i.e., no attempt should be made in their case to consolidate such taxes into the motor vehicles tax. We note that the Road Development Committee, which recommended consolidation of local taxes into a provincial motor vehicles tax, recognises the need for making an exception in respect of the larger municipalities:

Wheel tax levied by municipal corporations

"It would of course be necessary to compensate local authorities by grants from provincial revenues for the loss of income that they might have derived from local imposts. It must also be recognised that road service provided by different local bodies varies greatly and could not be equitably financed by uniform provincial taxation. In large cities for instance, where costly and efficient road system is maintained largely for the benefit of motor transport, a local tax in addition to provincial tax would seem to be justified."

While we recommend the levy of wheel taxes by municipal corporations in addition to the levy of the motor vehicles tax by State Governments, we, at the same time, suggest that there should be some reduction in the motor vehicles tax for the motor vehicles plying exclusively within the limits of each corporation. Such a practice already obtains in Bombay for motor vehicles plying for hire.

16. Apart from the tax on motor vehicles and the sales tax on motor spirit, the State taxes which arise for consideration are:—

- (i) sales tax on motor vehicles, accessories and spare parts;
- (ii) tax on carriage of goods and passengers; and
- (iii) other miscellaneous taxes like 'entrance tax'.

The Motor Vehicles Taxation Enquiry Committee recommended that the ordinary rates of sales tax, and not the 'special' higher rates levied by various State Governments, should be applicable to motor vehicles, spare parts and accessories. The higher rates, where they are in force, are by no means confined to motor vehicles. Several other articles are subject to such levy including refrigerators, electrical goods, etc. We are unable to concede that motor vehicles as a class are unsuitable for inclusion in the list of articles on which special rates of sales tax are charged by State Governments.

17. The tax on the carriage of passengers and goods levied under Entry 56 of List II in the Seventh Schedule to the Constitution has been in force for some time in the States of Bihar, Madras and Punjab; recently, Assam too has introduced a carrier tax. The following table gives certain details regarding this tax:—

TABLE 7.—*Details regarding tax on passengers and goods*

State	Year in which levied	Context of liability to tax	Rate of tax	Receipts (In lakhs of Rupees)
Assam . . .	1954	Manufactured tea carried in tea chests and jute carried in bales by motor vehicle, cart, boat, animal or human agency or any other means.	One pice per pound of manufactured tea and one pice per seer of jute.	50 (estimate)
Bihar . . .	1950	Passengers and goods carried by motor vehicles.	Two annas in the rupee on fares and freights.	19
Madras . . .	1953	Passengers, luggage goods carried by stage carriages and goods carried by public carriers.	Nine pies in the rupee on the fares and freights in the case of stage carriers and six pies in the rupee on freights in the case of public carriers.	60

TABLE 7.—Details regarding tax on passengers and goods—contd.

State	Year in which levied	Context of liability to tax	Rate of tax	Receipts (In lakhs of Rupees)
Punjab	1952	Passengers and goods carried by motor vehicles.	One pie per anna on the fare or freight subject to a minimum of three pies. In the case of public carriers, the tax is compounded into lump sums of Rs. 340 per annum per public carrier plying on hill routes and Rs. 360 per annum for others.	42

The proposal of the Motor Vehicles Taxation Enquiry Committee that carrier taxes of this kind should be abolished has been opposed by the States concerned on the ground that the tax is paid by the passengers and the persons transporting their goods and is not a burden on the operators or carriers. The relevant question is whether, in any particular State, the combined effect of these and allied taxes is such as to hamper the proper development of motor transport. Ultimately, the burden of both the motor vehicles tax and the tax on passengers and goods falls on the user of the motor vehicles and neither tax can be considered in isolation. Where the rates of the motor vehicles tax have been kept adequately low, a tax on passengers and goods may reasonably be levied; but where the motor vehicles tax is itself very high, the levy of a separate tax on passengers and goods would be unjustifiable. The case of Madras, for example, we consider to be one in which reduction is obviously called for in either or both the taxes.

18. A few States levy what are known as entrance taxes. These are collected on motor vehicles which, not being registered in the State, pass through its territory. In some instances, motor vehicles passing through more than one State are made liable to pay the motor vehicle taxes of the different States. The problem, of double taxation, combined with inconvenience to the tax-payer, which thus arises can readily be solved by reciprocal arrangements between the different States. Such arrangements have in fact, in recent years, been entered into by Part A States with respect to the taxation of private cars. Thus, a car registered and taxed in one State is exempted for the relevant quarter from further taxation in any of the other States which are parties to the agreement. We suggest that in the interests of unhampered traffic, whether of passengers or of goods, between different States, the principle which already in part operates in respect of private cars should be extended to all other motor vehicles and as between all States. Where bus services or public carriers ply regularly through two or more States, arrangements can and should be made for the distribution between the States concerned, on an agreed basis, of the proceeds from the taxes on such vehicles. We also recommend that entrance taxes or fees, licence duties, etc., wherever these are in the nature of a

tax on the motor vehicles registered in another State should be abolished.

19. We would refer in passing to the other recommendations of the Motor Vehicles Taxation Enquiry Committee. These pertain to (i) a transport cess for equalisation of the freight charges for transport of motor spirit, and (ii) a road cess on land revenue in lieu of a tax on carts in rural areas. The Committee recommended the levy of a cess of one and half annas per gallon of motor spirit for equalising transport charges. The price of petrol varies from place to place according to the cost of the transport involved; it is thus cheaper in port towns and dearer in inland centres. In urging the equalisation of transport charges, and along with it, broadly, of petrol prices, the Committee had in mind, as one of the main considerations, the need for creating for motor transport a scope for development which would not markedly differ between different areas. There was also another reason why the Motor Vehicles Taxation Enquiry Committee felt, in the light of another of its recommendations, that the price of petrol should be broadly uniform throughout the country. If, as separately recommended by the Committee, the tax on motor spirit was to be raised to six annas per gallon throughout India, the price of petrol, exclusive of the tax, could not be markedly high in some areas and markedly low in others. A six-anna rate would then be impracticable for the former areas. The suggestions concerning the equalisation of petrol prices have met with opposition from the maritime States. It is pointed out by these States that petrol is not the only article which varies in price from State to State. If the maritime States are favourably situated for petrol, there are other commodities (e.g., foodgrains in some instances) in which certain States enjoy a very distinct advantage over others. It is accordingly urged that it would not be reasonable for petrol alone being singled out for price equalisation on a countrywide basis. We recognise the force of this argument and find ourselves unable to endorse the suggestion that a transport cess of one and a half annas per gallon should be levied on petrol for the purpose of equalising prices. As for the rate of six annas per gallon as sales tax on petrol, we would, in the context of our observations, regard it as a *ceiling* to be exceeded by no State, rather than as a uniform rate which all States should attempt to adopt.

20. We have referred to the Motor Vehicles Taxation Enquiry Committee's recommendation that all States should levy a road cess of one anna per rupee of land revenue. In our view, any contribution for this purpose from the rural sector should be available for rural communications for the development of which, as we will presently point out, much greater finance is necessary than is likely to be mobilised by way of taxation of the agriculturists. Any such cesses should therefore, in our view, be left to be levied and utilised by local bodies.

21. In accordance with the taxation of motor vehicles and motor spirit, it is necessary, as we have indicated, to deal also with the issue of earmarking the proceeds, or a portion of them, for the financing of road development and road maintenance. The Motor Vehicles Taxation Enquiry Committee examined this question

and suggested the following arrangements:—

Central taxes:

- (a) *Fuel tax*.—A portion representing seven annas of the total fuel tax should be credited to the Central Road Fund in the first place. Of the revenue so collected, a portion representing four and a half annas of the total fuel tax should be distributed to States' Road Funds on the basis of motor spirit consumption to match on a 75 per cent. ratio of the States' fuel tax. Of the balance left to the Central Government, liberal contributions should be made to road development.
- (b) *Import duties*.—In equity, enhanced contributions should be made to road development equivalent to the 'luxury element' of these duties.

State taxes:

- (a) *Fuel tax*.—The proceeds should be credited to the State Road Fund to be created for the purpose of financing road maintenance and development. The money in the fund should not lapse.
- (b) *Motor vehicles tax*.—The proceeds should be similarly credited to the State Road Fund.
- (c) *Road cess on land revenue*.—The proceeds should be credited as above for distribution to local bodies in accordance with defined principles.

The Committee recommended the creation of Road Funds not merely by the Central Government, but also by the States, in order that the continuous process of upkeep and development of roads should not be affected by the fluctuations attendant on annual budget grants. To supplement expenditure from these Funds, the Committee further suggested that the general revenues of the States should contribute about one-third of the road bill and that this contribution should also be paid into their Road Funds.

22. We have carefully considered these important recommendations of the Motor Vehicles Taxation Enquiry Committee. It is the practice in most States to credit to general revenues, without any earmarking, all the receipts from motor vehicles taxation and sales tax on motor spirit. A part of the proceeds from the motor vehicles tax in Bombay and Uttar Pradesh, and in addition a part of the proceeds from the sales tax on motor spirit in Bombay, are credited to separate State Road Funds. As regards Central taxes, out of the amount of fifteen annas and nine pies, which is collected on every gallon of petrol not used for civil aviation, two annas and six pies are earmarked for payment into the Central Road Fund and the balance is credited to general revenues. Though we are generally against any earmarking of revenues for specific purposes, we consider that an exception is definitely justifiable in the context of road development. At the same time, it appears to us that the Motor Vehicles Taxation Enquiry Committee's proposal that the whole of the proceeds from the State taxation of motor vehicles and motor spirit, together with an additional amount to one-third of the road bill,

should be contributed by each State to its Road Fund is not likely to be practicable in most States. We suggest the following arrangements in respect of the earmarking of the proceeds from the taxation of motor vehicles and motor spirit:—

(1) The Central Government now make an annual contribution to the Central Road Fund. This should continue; and the rate of contribution should not be less than the present one of two and a half annas per gallon out of the total Central taxes on motor spirit. [The Motor Vehicles Taxation Enquiry Committee, it may be noted, recommends an increased contribution, *viz.*, seven annas per gallon. We take account of the increase involved, *viz.*, four and a half annas per gallon, in the suggestion we make in (4) below.]

(2) States should contribute not less than 25 per cent. of their receipts from taxes on motor spirit to their Road Funds. In addition, a sum representing not less than 25 per cent. of the balance of the proceeds from motor vehicles taxes, which remains after deducting the compensation or share to be given to the local authorities, should be contributed to the State Road Funds.

(3) The Central Government should continue to give grants to the State Governments from the Central Road Fund. The States should continue to spend on their road programmes from their general revenues, supplementing in this manner the finance for road development made available from their State Road Funds.

(4) It is necessary that the expenditure on rural communications should be expanded considerably. From the point of view of overall national development a very much larger programme than at present for the construction of roads, bridges, etc., in the rural sector is, in our opinion, so important as to need special financial provision in the form of an All-India Rural Communications Fund which should be both substantial and non-lapsable. Contributions from this Fund should be available to all States and the Central contribution should, in each State, be supplemented by the State Government itself as well as by local boards and (where suitable in the shape of free labour, free materials, etc.) by village panchayats. While it is not part of our recommendation that any additional duty on petrol or fresh motor vehicles taxation should be levied for this specific purpose, we suggest that an expert body should survey the technical and financial aspects of a vigorous and extensive plan for the development of rural communications, with a view, *inter alia*, to finding out the most appropriate manner of phasing the expenditure from year to year, and the approximate amount that will be required and could well be spent each year. From such broad appraisal of the problem as we have been able to make, we consider that there is *prima facie* justification for the following:—

- (i) an annual contribution by the Central Government to the All-India Rural Communications Fund of a sum equivalent to the proceeds of the Customs and Central excise duties on petrol to the extent of four and a half annas per gallon, and
- (ii) the provision by each State Government for expenditure on rural communications, of a sum not less than 25 per cent. of the Central grant to the State from the All-India Road Fund, the Central grant being conditional on such provision by the State.

23. We may next consider the principles of taxation of motor vehicles. As we have said, Entry 35 of the Concurrent List in the Constitution provides for the enactment of these principles by Parliament for the guidance of the Union and the States. It may be observed that in dealing with its subject of enquiry the Motor Vehicles Taxation Enquiry Committee was in effect concerned with four aspects of the problem:—

Principles of motor vehicles taxation: general principles

- (i) inland transport policy in general;
- (ii) basis of motor vehicles taxation;
- (iii) restriction on the powers of States to levy motor vehicles tax; and
- (iv) restriction on the powers of States and local bodies to levy other taxes on motor vehicles and their users.

In regard to the principles of inland transport policy, the Committee considered the suggestions made to the United Nations in 1950 by the International Chamber of Commerce and was of the opinion that these were suitable for India. The International Chamber had made the following points:—

- “(1) Production and distribution are dependent upon efficient and economical transport, and transport in turn depends upon flourishing production and distribution. The problem is thus twofold and should not be considered only from the standpoint of transport.
- (2) To ensure the application of this principle there should be arrangements in each country for consultation of the various forms of transport with their users, (agriculture, industry, trade), on rates, charges, services, conditions of carriage and all other economic aspects of the problem.
- (3) The user should enjoy unrestricted freedom of choice among the means of transport.
- (4) Transport ‘for own account’ should be unrestricted.
- (5) There should be national studies of inland transport with a view to determining all the elements of the cost of each form of transport in each country.
- (6) Whether the different forms of transport are either separately administered or centrally controlled by a statutory body, they should be free to compete. Healthy but not wasteful competition should be encouraged and for this purpose the different forms of ‘professional transport’ should be placed on a comparable competitive basis by revising and easing the statutory obligations, keeping also in view the interests of transport for ‘own account’. Structure of charges should reflect the cost of providing the service and should be framed so as to obtain the maximum economic efficiency of each form of transport.
- (7) Nothing should be done which would hinder the development of any particular form of transport or disguise the

advantages it could offer or which would discourage its use in order to provide artificial support for any alternative form of transport. The basis of co-ordination must be dynamic, not static.

- (8) In the interests of defence or the general national welfare, it may be necessary, in very exceptional cases, to maintain certain forms of transport at a minimum level. The losses on such operations should not throw additional charges on transport users as such; they should be nationally borne."

In common with the Motor Vehicles Taxation Enquiry Committee, we consider that these suggestions may be accepted for this country as constituting in this context a suitable and adequate background of principles.

24. In regard to the basis of motor vehicles taxation, the Committee recommended that the tax should be assessed as follows:—

On motor cars—on unladen weight.

On goods vehicles—on laden weight.

On buses—on seating capacity.

This basis is already in force in many States. We endorse the Committee's recommendation.

25. In regard to the rates of the tax on motor vehicles, the Committee has recommended a schedule of maximum rates which is lower than the schedule of rates which now obtains in Madras. Some of the States have objected to these rates being prescribed as ceilings and to their powers of taxation being restricted in this manner. The question of fixing maximum rates of motor vehicles taxes is chiefly one of co-ordination between State taxation and Union policies. We are of the view that to the extent that any of these matters are not resolved in the discussions which take place in the Transport Advisory Council should be finally considered by the Inter-State Taxation Council which we have suggested should be established. The advice of the Inter-State Council should be taken into account in framing legislative restrictions of the States' powers of taxing motor vehicles.

26. In regard to the restrictions on the powers of States and local bodies to impose taxes other than motor vehicles tax (e.g., octroi), which nevertheless affect motor transport, we have already, wherever necessary, expressed our views on individual items. Moreover, we believe that such taxes cannot properly be the subject of parliamentary legislation under Entry No. 35 of the Concurrent List. Here again, co-ordination between State and State, and the Union and States could be suitably secured through the Inter-State Taxation Council.

CHAPTER VII

STAMP DUTIES AND COURT FEES

I. Stamp Duties

Stamp duties are both used as a method of collection suitable for particular taxes and as a form of taxation. The term itself usually covers the duties levied on various deeds and documents executed as proof or record of certain legal transactions. Stamp duties are popular with Governments but are of limited appeal to economists; for, while convenient to collect and supervise, not many of them can be said to be meticulously related to the ability to pay. It is hardly possible to generalise about the incidence of these duties. For what is in substance the same type of transaction, the duty may be paid by one party in one instance and by the opposite party in another; when a piece of land, e.g., is sold and bought, the needy seller may agree to bear the tax in one case and the eager buyer in another. Stamp duties have the virtue that they have behind them the force of long custom. They are in general use in many countries.

2. In India, stamp duties are divided into judicial and non-judicial. The former are levied under the Court Fees Act, 1870, and represent fees payable by persons having business in law courts and public offices. These duties are known as Court Fees. Non-judicial stamp duties are regulated by the Indian Stamp Act, 1899, as amended from time to time by the Government of India and the State Governments. This Act was largely modelled on the British Stamp Act. The Devolution Rules under the Government of India Act, 1919, made non-judicial stamps a provincial item for the first time, subject however to Central legislation in respect of certain instruments. The position remained broadly the same when the Government of India Act of 1935 came into force and continues with minor changes under the Indian Constitution. In particular, the instruments reserved for Central legislation have somewhat varied as shown below:—

Government of India Act, 1919	Government of India Act, 1935	Indian Constitution
(Government of India Order No. 902, dated 17th February, 1922)	(Entry 57 in List I of Seventh Schedule).	(Entry 91 in List I of Seventh Schedule).
Acknowledgment		
Bills of Exchange	Bills of Exchange	Bills of Exchange.
Share Certificates		
Cheques	Cheques	Cheques.
Delivery order in respect of goods		
Letter of allotment of shares		
Letters of Credit	Letters of Credit	Letters of Credit.

Government of India Act, 1919	Government of India Act, 1935	Indian Constitution
Policy of Insurance	Policies of Insurance	Policies of Insurance.
Promissory Note	Promissory Notes	Promissory Notes.
Proxy	Proxies	Proxies.
Receipt	Receipts	Receipts.
Shipping Order	Bills of Lading	Bills of Lading. Transfer of Shares. Debentures.

3. The levy of stamp duty on an instrument is governed by two principles: firstly, it is the substance of the transaction, and not the name given to it by the parties, that determines the duty; and secondly, the duty is on the instrument (which results from a transaction) and not on the transactions themselves (which may or may not result in instruments). The different instruments mentioned in the Schedule to the Indian Stamp Act are liable to stamp duties either on a fixed or an *ad valorem* basis. Usually, where the transactions denoted by the instrument is susceptible of valuation, an *ad valorem* duty is charged; where it is not, or where an *ad valorem* duty would be unduly troublesome to the administration or unduly burdensome to the tax-payer, fixed stamp duties are charged. Some of the important documents on which *ad valorem* duties are levied are:—

Bills of exchange, conveyance, debentures, lease, mortgage deed, partition deed, insurance, and transfer of shares and of debentures.

The following are some of the instruments on which fixed rates of stamp duty are charged:—

acknowledgment, adoption deed, bill of lading, letters of credit, proxy, receipt, and shipping order.

The *ad valorem* rates are many; but, for the most part, they group themselves round the three basic rates which are fixed for three typical documents, viz., (i) a bill of exchange (not payable on demand), (ii) a bond and (iii) a conveyance.

4. Since 1922, when the subject 'Stamp Duties' was transferred, with certain reservations, to the Provincial List, several States have increased the duties on all or most of the instruments in the Schedule to the Indian Stamp Act, except of course on those reserved for the Central Government. During World War II, the rates of stamp duties were further increased as an anti-inflationary measure. In some States, e.g., Bombay, Bihar, Orissa, Uttar Pradesh and Madhya Pradesh, the increase was in the form of a general surcharge, which has since been absorbed in a majority of these States in the rates of

Revenue from stamp duties

stamp duties. The following table shows the progress of receipts from stamp duties in Part A States:—

TABLE 1.—Receipts from stamp duties in Part A States

(In lakhs of Rupees)

State	1938-39	1944-45	1950-51	1954-55 (Budget)
Assam	5	8	11	14
Bihar	28	74	1,40	1,05
Bombay	77	2,07	2,87	2,73
Madhya Pradesh	8	25	54	62
Madras (including Andhra)	70	2,17	3,20	2,94
Orissa	4	8	38	48
Punjab	30	75	34	32
Uttar Pradesh	26	53	70	90
West Bengal	76	1,48	1,80	1,60
TOTAL	3,24	8,15	11,34	10,78

The receipts from stamp duties represent about 5 per cent. of the total tax revenue of Part A States.

The Indian Stamp Act, 1899, does not extend to Part B States. The States of Hyderabad, Mysore, Madhya Bharat and Travancore-Cochin have their own Stamp Acts which, however, are broadly modelled on the Indian Stamp Act; the other Part B States have adopted the Indian Stamp Act in its entirety. The relevant receipts are as follows:—

TABLE 2.—Receipts from stamp duties in Part B States

(In lakhs of Rupees)

State	1950-51	1951-52	1952-53	1953-54	1954-55
Hyderabad	20	20	31	37	37
Madhya Bharat	12	15	16	16	16
Mysore	30	31	28	38	42
PEPSU	12	12	12	13	13
Rajasthan	19	19	23	26	27
Saurashtra	13	13	11	12	12
Travancore-Cochin	55	60	55	55	55
TOTAL	1,61	1,70	1,76	1,97	2,02

The rates of stamp duties in most Part B States have been increased recently and brought more or less on a level with those in neighbouring Part A States. The receipts from stamp duties come to about three per cent. of the total tax revenues of Part B States.

5. The schedule of the Indian Stamp Act specifies different instruments and the duties leviable thereon. These instruments can be broadly classified as relating to (1) transfer of property, (2) commercial transactions and (3) other transactions.

Instruments relating to transfer of property 6. Documents of transfer of property include gifts and settlements, partition deeds, sale certificates, conveyances, transfer of bonds and mortgages, etc. The instruments relating to conveyances are of more particular importance than the rest from the point of view of revenue. The duties on these are on an *ad valorem* basis and generally proportional (though there is a slight progression in a few States). Except in the State of Bombay, no attempt is made to differentiate between urban and rural areas in regard to the rates of duties on conveyances. In Bombay, there are four categories of rates: highest for Bombay City, slightly lower for the Cities of Ahmedabad, Poona and any other notified City, much lower rates for other urban areas and still lower rates (which correspond to the general rates in Bengal, Bihar, Punjab and some other States) for rural areas. Statistical Appendix 2 gives the rates of stamp duties in some States on conveyances and allied instruments relating to transfer of property. In Madras, municipalities are allowed to levy a surcharge on the stamp duties levied by Government on conveyances. These surcharges vary from two per cent. for mofussil municipalities to five per cent. for the Madras Municipal Corporation.

Instruments relating to commercial transactions 7. Bills of exchange, bonds, receipts, agreements, share certificates, transfers of shares, debentures, etc. are instruments which mainly relate to commercial transactions. Of these, bills of exchange and receipts have continued to be reserved to the Central Government, while the transfers of shares and debentures have been so reserved for the first time in the Constitution. The duties on transfer of shares vary from State to State as shown below:—

TABLE 3.—Rates of stamp duties on transfer of shares

State	Rate per Rs. 100
	Rs. A. P.
Madras	1 8 0
Bombay	1 2 0
Bihar	1 1 0
Uttar Pradesh	0 15 0
West Bengal	0 12 0
Mysore	0 10 0
Hyderabad	0 8 0
Travancore-Cochin	0 8 0

The Central Government have not so far sought to reduce the existing disparities in these rates. In other words, these particular stamp duties stand frozen at their existing level.

Instruments relating to transactions in Forward Markets 8. It is necessary to make special mention of instruments relating to transactions in Stock and Commodity Exchanges. These are agreements, memoranda of agreements, notes or memoranda by brokers, and, lastly, clearance sheets. It is only in Bombay, by virtue of amendments effected by the State Legislature, that 'clearance sheets' find inclusion in the law relating to stamp duties, the reason being that in this State a suitable method has been

evolved whereby, largely through the clearing houses of certain forward markets, taxation is effectively levied, in the form of stamp duties, on the transactions in those markets. Unlike the other States which levy duty only on the agreements and brokers' notes relating to purchase or sale of shares and securities, the Bombay Government levy duties on instruments relating to shares and securities on the one hand and to certain commodities on the other as shown below:-

TABLE 4.—*Rates of stamp duties on transactions in stock and commodity exchanges in Bombay*

	Rate of duty (exclusive of the surcharge of 50 per cent.)
I. Agreement or Memorandum of an agreement :	
(i) if relating to the sale of a bill of exchange;	Four annas.
(ii) if relating to the purchase or sale of Government security;	Two annas for every Rs. 10,000 or part thereof, subject to a maximum of twenty rupees.
(iii) if relating to the purchase or sale of shares, stocks or such other marketable securities;	One and a half annas for every Rs. 2,500 or part thereof.
(iv) if relating to the purchase or sale of cotton;	Four annas for every unit of 50 bales of cotton or part thereof.
(v) if relating to the purchase or sale of bullion or specie;	(a) Two annas for every unit of 2,800 tolas of silver or part thereof. (b) Eight annas for every 250 tola of gold or part thereof. (c) Five annas for every unit of 250 sovereigns or part thereof.
(vi) if relating to the purchase or sale of oilseeds—	
Groundnuts	Six annas for every unit of 100 khandies or 25 tons or part thereof.
Linseed	Five annas for every unit of 100 khandies or 25 tons or part thereof.
Castor seed } Cotton seed }	Four annas for every unit of 100 khandies or 25 tons or part thereof.
(vii) if relating to the purchase or sale of yarn of any kind, non-mineral oils or spices of any kind;	One anna for every Rs. 2,500 or part thereof of the value.
(viii) if not otherwise provided for.	One rupee.
II. Note or Memorandum sent by a broker or agent to his principal intimating the purchase or sale of the different articles mentioned at I above.	Same duties as are specified above under I.
III. Clearance list relating to the transaction for the purchase or sale of the different articles mentioned in I above.	The sum of duties payable under I or II as the case may be in respect of each of the entries in such list.

The Government of Bombay realise about half a crore of rupees annually from the stamp duties on transactions in the forward markets. The collection of the tax, as already indicated, is effected

through the Associations which conduct forward business. That this has been readily possible in Bombay is due to the fact that legislation has been passed in that State for the general control and supervision of forward markets including the stock exchanges.

9. Instruments relating to other transactions are of minor importance from the point of view of revenue. They include proxies, power of attorney, extracts, copies and duplicates. The duty on proxies is levied by the Centre. On the other instruments, different States charge different duties; these are in the nature of flat rates and are generally low.

10. In view of the wide variations of stamp duties from State to State, certain States (e.g., Bombay, Bengal, Madhya Pradesh, Uttar Pradesh and Orissa) have amended the Indian Stamp Act so as to ensure that the difference between the two levies of two different States becomes payable when an instrument, duly stamped in one State, has occasion to be recognised as a stamped document in the State which levies the higher duty. In certain other States, the Collector is authorised by an amendment to the Stamp Act, to 'certify' such instruments within a period of three months of their arrival in the State. The practice mentioned above also applies to documents, and to counterparts or duplicates of the original instruments.

11. Exemptions and concessions in respect of stamp duties are provided in the Indian Stamp Act, in the enactments of different States, and in the notifications issued under individual statutes. Among instruments exempted under statutory enactment are: those executed by or in favour of Government, instruments relating to sales, mortgages or other dispositions of a ship or vessel registered under the Shipping Acts, bonds, debentures, securities in respect of loans raised by any local authority, instruments in favour of the Official Assignee and certain instruments under the Land Acquisition Act, Indian Works of Defence Act, etc. Among instruments exempted by notification are: those notified under Land Revenue Acts and Codes, Public Demands Recovery Act, etc., instruments executed by holders of Government scholarships or stipends, agreements or security bonds furnished by contractors to certain Departments of Governments, instruments executed by Co-operative Societies, etc.

12. As stamp duties are levied on the instrument and not on the transaction in respect of which the instrument has been executed, it is theoretically possible to avoid the duty by refraining from executing the instrument. But since, in that process, the party would also be dispensing with something which might later be required as acceptable legal proof of the transactions, the scope of avoidance is in practice very limited. There remains, however, significant scope for evading part of the legitimate duty by undervaluing the transaction and paying a lower duty. This is a common method of evasion, and the Indian Stamp Act, therefore, lays down that no instrument shall ordinarily be admitted in evidence for any purpose unless it is duly stamped; and public officers (other than police officers) have been authorised to impound an instrument which is produced or comes before them in the performance of their functions, if it happens to be not duly stamped. Sometimes, part of the legitimate duty is sought to be evaded,

not by undervaluation, but by showing a type of instrument which, while not in conformity with the actual facts of the transaction, would, for a lower duty than that due on the proper instrument, constitute an adequate minimum of legal proof and evidence. Thus, where the proper document would have been a bond, a promissory note may be the form in which the parties agree to embody the transaction. As only nominal duties are charged on promissory notes, this method saves the parties the higher *ad valorem* duties on bonds. Again, it is common practice to avoid the tax on the transfer of stocks or marketable securities by executing 'blank' transfers. The transferee's name is not entered and the security passes through a large number of hands till it reaches an investor who desires to retain it and register it in his name. The practice of blank transfers is very common in the Stock Exchanges. From the point of view of healthy trading in those Exchanges, several committees which have examined this question have suggested that the practice of blank transfers should be discouraged or even abolished.

13. While the scheme of taxation under the Indian Stamp Act has on the whole worked satisfactorily, we have seen **Problems to be considered** above that the rate of duty on the same type of instrument varies from State to State, that exemptions are many and that evasion, though not substantial, is appreciable. The representatives of trade and industry have urged that there should be uniformity in the rates of stamp duties. The State Governments on the other hand consider that there is no need for such uniformity and no hardships are caused to the trade, industry and the public under the existing scheme of stamp duties.

One question which has to be examined is whether there is scope for increasing the existing rates of stamp duties and whether any taxes, not hitherto collected as stamp duties, may conveniently be levied in that form.

14. The issue of uniformity in the rates of stamp duties has to be **Feasibility of uniformity in rates** considered in relation to the different types of instruments. There are several instruments which have no inter-State or all-India bearing; they are limited to transactions entered into within the area of a State. There are others which pertain to commercial transactions covering a wider area than a State. The differences in the rates of stamp duties on instruments pertaining to transactions which are substantially intra-State in character, would not, of course, affect persons outside the State in any serious manner. Uniformity in the rates of stamp duties on such instruments is neither necessary nor desirable; for one thing, it would involve loss of revenue to some of the States whose rates would have to be brought down in the process. In regard to instruments in respect of transactions extending beyond the territory of a State, it is, however, necessary to ensure uniformity in the rates of stamp duties as far as possible. Such instruments have in most cases already been reserved for the Central Government under the Constitution and the present disparities in the stamp duties on some of these will at any rate not be increased in future. They can, where necessary, be minimised or even removed by the imposition of ceilings or of uniform rates through legislation by the Central Government. We consider that such legislation would eventually be desirable, but do not see any pressing urgency for it. We suggest

that this is a matter which may suitably be taken up with the Inter-State Taxation Council, the establishment of which we elsewhere recommend.

15. The rates of stamp duties are at a fairly high level in most States. In respect of some instruments, in particular, the receipts fluctuate rather sharply and it is difficult to be categorical that a tendency to decline has set in during the last two or three years. The following figures for Bombay and Saurashtra are illustrative:—

TABLE 5.—Receipts from stamp duties on certain instruments

(In lakhs of Rupees)

	1949-50	1950-51	1951-52	1952-53	1953-54
Bombay					
Bills of exchange, hundis, bills of lading . . .	10	12	10	10	9
Instruments relating to insurance . . .	7	8	9	8	9
Share transfers . . .	20	23	25	19	24
Instruments relating to forward market transactions . . .	43	50	63	46	47

TABLE 6.—Number and value of certain instruments on which stamp duties were paid

Saurashtra

Year	Sales		Mortgages		Rest	
	No.	Value	No.	Value	No.	Value
		Rs.		Rs.		Rs.
1949 . . .	7,447	1,54,45,761	5,738	1,00,30,389	1,914	62,72,406
1950 . . .	13,612	4,06,59,012	7,298	1,97,27,746	2,455	54,41,829
1951 . . .	16,208	2,98,57,631	8,973	2,36,58,267	3,351	81,73,405
1952 . . .	10,055	2,30,46,421	9,073	1,72,97,303	3,111	77,43,653
TOTAL .	47,322	10,90,08,825	31,082	7,07,13,705	10,832	2,76,31,293

It may be said on the whole that, with the exception of certain Part B States (e.g., Madhya Bharat, Travancore-Cochin and Hyderabad), the scope for a further increase in stamp duties is very limited. In some of the Part B States mentioned, the Governments have already under consideration proposals for increasing the present rates of their stamp duties.

16. There is scope for a certain degree of curtailment of the prevailing exemptions and remissions under the Indian Stamp Act. The notifications of exemption or remission issued by the different State

Curtailment of exemptions

Governments include several instruments which whatever may have been the reason which led to their exemption in the past, can no longer justifiably figure in these lists. A few examples may be cited:—

- (i) instruments of transfers of properties between companies limited by shares where 90 per cent. of the share capital of the transferee company is in the beneficial ownership of the transferor company;
- (ii) agreements entered into with the Forest Department for felling, collecting and transporting forest produce, firewood, timber, etc. (other than agreements for grass, grazing, etc.); and
- (iii) instruments executed by contractors for due performance of contracts with the Defence Department, Railways, Forest and Public Works Departments.

We recommend that the list of exemptions be carefully examined by each State Government with a view to withdrawing such exemptions as are not connected with some important policy of Government (e.g., development of the co-operative movement) or some genuine hardship to the tax-payer (e.g., instruments pertaining to loans and advances to displaced persons, etc.).

17. No stamp duty is levied on cheques. The relevant power vests in the Government of India. There was at one time a duty of one anna per cheque but this ceased to be levied from 1st July 1927. The question of re-imposing stamp duties on cheques was considered several times in the past and dropped. The Currency Commission, 1925-26, opposed this levy on the ground that such a duty would discourage the banking habit which had not yet developed in India. In view of the very considerable leeway which banking in general, and the cheque habit in particular, has yet to make in this country, we are of the view that no stamp duty should be levied on cheques.

In regard to stamp duties on insurance policies, it has been pointed out to us that sea insurance policies executed outside India, but made enforceable in India, are not subject to Indian stamp duty. In the United Kingdom, such policies are liable to stamp duties which have to be paid within ten days of their receipt. The present provisions in the Indian Stamp Act, in so far as they relate to the requirement that instruments executed outside India should be stamped within three months of receipt, are only enabling and not mandatory. As the bulk of sea insurance business is placed abroad, revenue is avoidably lost on account of these instruments not being made compulsorily liable to the stamp duties in India. As the levy of stamp duty on insurance policies is within the competence of the Central Government, we recommend that the Government of India should look into this suggestion and amend the Act suitably.

18. Apart from duties on instruments, a few other taxes are collected through stamps. For example, entertainment duties are collected in this manner in many States. In Bihar and Orissa, taxes on motor vehicles are realised through stamps while

Feasibility of other steps to increase revenue

Feasibility of collecting taxes in the form of stamps

in the Punjab stamps are utilised for collecting the tax on passengers and goods. Further possibilities in this direction are very limited. It is sometimes suggested that the sales tax should be recovered in the form of stamps. We do not consider the proposal feasible and agree with the following view of the Government of Bombay:

"In selecting articles for levy through stamps either the transactions should be concentrated in locale as in the case of forward markets or law courts or else the levy should be imposed on instruments of legal evidence and personal contestable rights recognised by the State. In transactions between a dealer and a consumer widespread in locale there is no necessity of maintaining legal proof thereof either by the dealer or by the consumer. The recovery of sales tax in the shape of stamps is particularly unsuitable when the tax is recovered at the retail stage. There the trader would be much inconvenienced and during rush hours it would be practically impossible for him to recover the tax by affixing stamps to each bill small or great. The only stage where stamps may be a suitable method would be at the first stage, i.e., stage of manufacture or imports. Here also, the amounts to be recovered being large, it is more convenient to recover it in cash than through stamps. Further, the recovery of sales tax through stamps has no particular administrative advantages as the practice of evasion and avoidance of tax would still exist under that system."

19. There is however one context which seems to us to provide further scope for a tax levy in the shape of stamp duties. We have in mind certain States in which stamp duties may suitably be extended to instruments relating to transactions in the Stock Exchanges and Commodity Markets. As pointed earlier, Bombay is at present the only State where stamp duties of this kind are levied. In the Punjab, a tax at low rates is levied on forward contracts in respect of goods like silver, gold, sugar, *gur*, tin, mercury, metals, yarn, grains, and seeds. A 'forward contract' is defined as "an agreement, oral or written, for the sale of goods on a future date but on the basis of which actual delivery of goods is not made or taken but only the difference between the price of goods agreed upon and that prevailing on the date mentioned in agreement or any other date is paid or received by the parties". A dealer is liable to pay the tax as long as he continues his business and has to get himself registered with the Assessing Authority of his district. The tax is payable monthly while the assessment is made annually. The receipts from the tax are about two lakhs of rupees per year. The low yield realised by the Punjab Government is in our view an indication of the large evasion of the tax which now takes place. In the Punjab, there is no Government control over the forward markets as there is in Bombay and, further, the tax is on individual forward contracts of dealers and not on clearance sheets submitted to the Associations running the forward business. In Bombay, most of the revenue of about Rs. 50 lakhs a year is derived from Associations recognised and controlled by the Government under the Bombay Securities Contracts Control Act and the Bombay Forward Contracts Control Associations maintains a clearing house

Extension of stamp duties to transactions in forward markets

where differences in payments arising from the transactions of its members are adjusted. Every member who has to receive or pay money from other members sends a list to the clearing house. The duty is levied on each entry in the list. As all payments of differences are made through the clearing house and every trading member of the Association is anxious to adjust his payments, the recovery of the stamp duties on clearing lists through these Associations is more or less effective and the scope for evasion is considerably reduced, though not of course by any means eliminated. The Central Government have enacted the Forward Markets Regulation Act and established the Forward Markets Commission. As and when the forward markets in different commodities are brought under this form of control in different States, it should be possible for the States concerned to impose stamp duties on the lines of those levied in Bombay. Similar steps can be taken in regard to transactions in Stock Exchanges when the Central legislation in respect of them is enacted and made operative.

A proper system for the control of blank transfers has to await Central legislation in regard to the regulation of Stock Exchanges and the reform of Company Law. The practice of blank transfers can be effectively curbed only when Government have adequate control over Stock Exchanges. It would at the same time be necessary to deal with certain existing difficulties like delay in registering the transfers and the high stamp duties on transfers. If, as in U.K., a simple and quick procedure for registering the transfers in the books of the companies is evolved, it may be expected that the curtailment or elimination of the practice of blank transfers will not affect the liquidity of the investment markets. But, if transfers of shares are to be registered each time they pass from one person to another, the present stamp duties will prove to be too heavy. These will have to be adequately reduced. It seems to us likely that the reduction in revenue consequent on lower rates will be substantially made up by the larger volume of transactions on which stamp duty will be collected.

II. Court Fees

20. While the levy of fees by judicial institutions was not unknown in the pre-British India, the existing system of levying court fees originated from the Bengal Regulation No. 38 of 1795. The immediate occasion was the considerable increase that had taken place in the work of courts on account of the many groundless and litigious suits which contestants filed before the judicial authorities. Shortly after the Regulation was passed, the fees under it were made leviable in the form of stamp duties, and this practice has since continued. In Part A States, court fees are now levied under the Indian Court Fees Act, 1870, as amended by the different States from time to time. As with the Indian Stamp Act, so with the Court Fees Act, the enactment does not automatically extend to Part B States. Hyderabad, Madhya Bharat, Mysore and Travancore-Cochin have their own Acts; other Part B States have adopted the all-India Act for their areas.

21. The rates of court fees differ from State to State. They have been revised several times. Appreciable increases were effected during the War as an anti-inflationary measure; in some States, a surcharge (varying from 25 per cent. to 50 per cent.) was imposed which

Revenue from court fees

in most cases has since been merged in the ordinary rates of court fees. The progress of receipts from court fees in Part A and Part B States is shown below:—

TABLE 7.—Receipts from Court Fees (judicial stamps)

(In lakhs of Rupees)

State	1950-51	1951-52	1952-53	1953-54	1954-55 (Budget)
<i>Part A States</i>					
Assam	13	15	17	17	17
Bihar	1,08	92	1,05	1,02	1,02
Bombay	1,23	1,25	1,43	1,23	1,39
Madhya Pradesh	46	49	52	52	52
Madras (including Andhra)	1,68	1,63	1,78	2,00	1,93
Orissa	27	28	32	31]	31
Punjab	31	28	30	29	31
Uttar Pradesh	1,74	1,61	1,71	1,76	1,78
West Bengal	98	1,07	1,09	1,13	1,13
TOTAL PART A STATES	7,88	7,68	8,37	8,43	8,56
<i>Part B States</i>					
Hyderabad	30	31	24	8	18
Madhya Bharat	24	26	23	24	24
Mysore	19	15	16	20	21
PEPSU	3	7	7	7	8
Rajasthan	24	28	28	29	29
Saurashtra	9	10	10	11	11
Travancore-Cochin	26	29	28	23	25
TOTAL PART B STATES	1,35	1,46	1,36	1,32	1,36
GRAND TOTAL FOR PART A AND PART B STATES	9,23	9,14	9,73	9,75	9,92

22. The Court Fees Act, 1870, contains two Schedules: Schedule I specifies instruments on which *ad valorem* fees are chargeable at the rates shown therein and Schedule II contains instruments on which fees at the specified fixed rates are chargeable. Plaints, probates of wills, letters of administration and succession certificates, are the most important instruments included in Schedule I for *ad valorem* fees. The court fees levied on suits of different values in certain States are shown in Statistical Appendix 3. On minor instruments like applications, petitions, *wakalatnama*, etc., fixed fees are charged. Even in regard to plaintiffs, there is a difference, in most States, between the fees charged in the High Courts and the other courts. In these States, the system of levying court fees on the original side of the High Courts is similar to the one prevailing in the United Kingdom. The general rates of fees prescribed under the Court Fees Act do not apply but a lump fee is paid at the time of the institution of a suit; as the hearing of the suit progresses, other fees like hearing fees, exhibit fees, etc., are charged. The sum total of all these fees is however much lower than if ordinary *ad valorem* fees had been charged. When it is borne in mind that suits of only higher value are instituted in the High Courts, the anomaly of charging low fees for costlier plaintiffs in the High Court and high fees for less costly plaintiffs in other courts becomes evident. The Taxation Enquiry Committee referred to this and said: "If the agency which is set in operation is to be the criterion of the amount of the fee to be paid, it follows that, that of a High Court being much more efficient and expensive than any court in the *mufassal*, a litigant on the Original Side should pay a higher and not a lower court fee. The Committee recognise that this ancient privilege of the successors of the old Supreme Courts is one which the Government will be loth to disturb. Regarding the matter, however, from the point of view of taxation, they feel that the retention of it cannot be justified. They would urge that whatever steps are necessary be taken to render the fees on the Original Side of the Chartered High Courts as far as possible uniform with one another and not less than those in the courts in the *mufassal*." In Travancore-Cochin, no distinction is made for the purposes of the court fees between suits instituted in the High Court and in other courts. By a recent amendment to the Court Fees Act, the Government of Bombay have also removed this anomaly and *ad valorem* court fees are now chargeable in all courts including the High Court.

23. The exemptions and remissions from court fees are mostly in respect of fixed fees on applications or petitions; in a few cases, they relate to fees on probates or succession certificates. The common method of evading the full court fee is to undervalue the relief sought in the plaint. The Court Fees Act permits the plaintiff himself (in certain contexts such as the enforcement of rights, claims, etc.) to evaluate the relief sought by him; this has been said to lead to vexatious litigation at not much cost to the plaintiff. The opposite device is in use where the fees in the High Courts are lower than in the courts below; here the method adopted is to overvalue the relief sought (particularly when it relates to properties) and institute the plaint in the High Court instead of in the lower court.

24. The following table shows the receipts from court fees and the expenditure on the administration of justice in Part A and Part B States:—

TABLE 8.—Receipts from court fees and expenditure on Administration of Justice

State	Receipts from court fees	Expenditure on Administration of Justice (1954-55 Budget) (In lakhs of Rupees)
<i>Part A States</i>		
Andhra	58	62
Assam	17	16
Bihar	1,02	97
Bombay	1,39	2,10
Madhya Pradesh	52	53
Madras	1,35	1,28
Orissa	31	25
Punjab	31	46
Uttar Pradesh	1,78	1,47
West Bengal	1,13	1,07
TOTAL PART A STATES	8,56	8,91
<i>Part B States</i>		
Hyderabad	18	54
Madhya Bharat	24	32
Mysore	21	32
PEPSU	8	18
Rajasthan	29	36
Saurashtra	11	19
Travancore-Cochin	25	44
TOTAL PART B STATES	1,36	2,35
GRAND TOTAL PART A AND PART B STATES	9,92	11,26

These figures ought to dispel any impression that State Governments make large income out of the administration of justice. In many States the cost of such administration is much higher than their receipts from court fees. At the same time, it has to be added that we find ourselves in entire agreement with a view which has been expressed by the Chief Justice of India and the Chief Justices of certain High Courts—in replies which they kindly sent to us, at our specific request, on one or two points—to the effect that court fees (assuming they are charged at all) should only be on the basis of covering the expenses of the administration of justice. It has further been urged, in some of the replies we have referred to, that the eventual aim should be to abolish court fees altogether and that meanwhile there should be brought about both a substantial reduction in these fees and a substantial uniformity between different States. Since the relevant conditions differ from State to State, the achievement of uniformity does not seem to us a practicable objective in terms of the near future; nor indeed does there seem pressing or immediate need for uniformity as such. The abolition of court fees, even if that was feasible, would not by itself lower the cost of justice as there are other factors like lawyers' fees which also determine such cost. We are obviously not competent to deal with these issues. On the more restricted question of reduction of court fees, however, we recommend an urgent review of these fees by those few State Governments which now derive from them a revenue which substantially exceeds the cost of administration of justice in order that the fees may be suitably reduced and readjusted as soon as possible. Within the overall requirements of the principle we have endorsed, *viz.*, that the total receipts from court fees should be such as by and large only to cover the cost of administration of justice, various readjustments might be both necessary and desirable; for example, in certain contexts—especially that of deterring petty or vexatious litigation—the fees would have to be adequately high, just as in other contexts (*e.g.*, where the poorer parties are concerned) they would have to be adequately low.

25. We have come to the conclusion that there is not much scope for enlarging the schedules to the Court Fees Act. There is a general feeling among the State Governments that the system of valuation of complaints and causes under the Court Fees Act is defective and requires to be revised to suit changed conditions. Accordingly, in some States, the method of valuation of land and pre-emption suits has been revised, while partition suits have been made liable to pay *ad valorem* fees instead of fixed institution fees. Some additional revenue can, however, be realised by curtailing the numerous exemptions granted at present by the several States under the Court Fees Act. Similarly, the evasion of court fees by undervaluing the complaints can be checked by suitably amending the provisions of the Court Fees Act, particularly those under which discretion has been given to the plaintiff to put his own valuation on his complaint. In Bengal, Bombay and certain other States, specific powers have now been given to the court to determine the correct valuation of the complaints where it is of opinion that the subject matter of the suits has been wrongly valued. The need for proper vigilance by the courts for ensuring that correct court fees are paid will be evident from the fact that special investigations by the States of Bihar and Madhya

Suggestions for improvements

Pradesh into the records of court proceedings for verifying the correctness of the court fees paid have revealed that payment of fees to the extent of about Rs. 1,07,000 and Rs. 90,000 respectively was evaded. A stricter observance of the payments of court fees and periodical checks by special investigators should minimise this evasion.



सत्यमेव जयते

CHAPTER VIII OTHER STATE TAXES

1. Entertainment Tax

Under entry 62 of List II of the Seventh Schedule to the Constitution, the States are empowered to levy a tax on entertainments. The State Governments enjoyed these powers even under the Government of India Acts of 1919 and 1935. At first, the practice was to tax only such entertainments as were held within municipal limits; but with the growing extension of the cinema as a form of entertainment, the tax itself came to be extended to the entire areas of States.

2. In Madhya Bharat, Hyderabad, Rajasthan and Travancore-Cochin, the State Government's powers to levy the tax are delegated to the local authorities. In Madras, Andhra and Mysore, the State Governments levy the tax but the receipts are distributed to the local bodies. Elsewhere, the State Governments both levy the tax and retain the proceeds. Besides the tax on entertainments, a separate tax called the theatre or show tax is levied on each show or performance, in the States of Madras, Andhra and Hyderabad. The levy is by the State Governments and the receipts are relatively negligible. In certain other States (e.g., Bombay), the theatre tax is levied by local authorities.

3. The entertainment tax is generally levied on the price charged for admission to any place of 'entertainment' which term includes cinemas, theatrical performances, exhibitions, games and variety entertainments. The bulk of the revenue from this tax is provided by the cinema. While the theatre or show tax generally falls on the exhibitors or organisers of entertainments, the burden of the entertainment tax is borne by the public patronising these entertainments. The tax is collected either in cash or through special adhesive stamps.

4. In Statistical Appendix 4 are shown the rates of entertainment tax prevailing in the various States. It will be seen that except in Bihar, the tax is levied on a slab basis. In Bihar, however, the tax is imposed at 50 per cent. of the rate of admission and no distinction is made between different classes of admission for the purposes of the tax. In Delhi, Uttar Pradesh, Madhya Pradesh, Orissa and Ajmer, no tax is imposed when the rate of admission does not exceed two annas. The exemption limit is three annas in Bengal, while in Punjab and Assam it is four annas. The other States do not exempt tickets of low price. The receipts from the entertainment tax are as follows:—

TABLE 1.—Receipts from entertainment tax

(In 'crores of Rupees)

Year	States		
	Part A	Part B	Part C
1950-51	5.80	0.17	..
1951-52	6.22	0.22	..
1952-53	5.74	0.22	..
1953-54	5.21	0.27	0.33
1954-55	5.40	0.28	0.35

The low receipts in Part B States are due to the fact that except in PEPSU and Saurashtra, the entertainment tax in all Part B States is either levied by the local bodies themselves or levied by the State and the receipts made over to the local authorities. The State-wise break-up of these figures is given in Statistical Appendix 5.

5. In the procedure of assessment and of collection of the tax, there is considerable variation between different States. The usual practice is to charge the tax on the tickets sold; as part of this method, it is insisted that the tickets be serially numbered and properly accounted for. Sometimes, special adhesive stamps are provided for being applied to the tickets. In a few cases, the tax is collected on the basis of a specified percentage of the gross collections. In Bihar, there is a provision for the lump sum composition of the entertainment tax; this particularly applicable to entertainments with low admission rates. Steps are taken in all the States to check evasion by periodical verification of accounts, surprise inspections, issue of serially numbered books, etc. The usual methods of evading the tax are maintenance of duplicate sets of tickets, issue of unnumbered and unstamped tickets, re-sale of issued tickets, use of issued stamps, etc.

6. It is of interest to note the different views expressed in regard to this tax. The Film Enquiry Committee of 1951, which examined the question in some detail, has recommended that the tax should be on a flat percentage basis, preferably 20 per cent. of the gross takings. It has also stressed that the cinematograph industry should not at the same time be taxed both by the State Governments and by the local bodies. Several representatives of the film industry have, in their memoranda to us, supported the recommendations of the Committee. The present system of entertainment duties is criticised by it on the following main grounds:—

- (1) The rates are high; they are higher than even the rates of the sales tax and the betting tax.
- (2) The slab-system is attended with many disadvantages for the exhibitor.
- (3) The rates vary sharply from State to State and involve an element of discrimination.
- (4) In India the tax falls largely on the indigenous industry, whereas in other countries it falls mainly on imported films.

The State Governments do not agree that the present rates are high or that uniformity is necessary. They see no reason to hold that a flat percentage basis is better than the present slab basis which contains an element of progression.

7. From the figures of receipts from the tax, it will be observed that the collections reached a peak figure in 1951-52 and that thereafter there has been a gradual decline. This has been attributed by most State Governments to a general decline in purchasing power. But it is also to some extent true that, as indicated by the Film Enquiry Committee, the

present system makes it difficult for the exhibitor to adjust his admission rates to suit the needs of local cinema-goers. The rates of duty are often fixed for the State as a whole and they afford little scope for adjusting the admission charges to suit regional or local requirements. An analysis of the receipts from entertainment tax shows that about 95 per cent. of the receipts are realised from cinemas and, further, that 66 per cent. of the receipts are realised from the lower classes of seats ranging from four annas to one rupee. A ticket-wise classification of the entertainment tax receipts for one quarter in the Bombay State, shows the following results:—

TABLE 2.—Receipts from entertainment tax

Rates of admission (exclusive of tax)	(in thousands of rupees)	Per cent. of the total receipts
Seats below 4 annas	7.70	23
Seats above 4 annas but not above 8 annas	12.20	37
Seats above 8 annas but not above Re. 1	10.45	31
Seats above Re. 1	3.14	9
TOTAL	33.49	100

Sixty per cent. of the receipts are from seats costing annas eight and less as admission rates; the receipts from tickets costing one rupee and less represent as much as ninety one per cent. of the total receipts. It is clear that it is the tax at the lower slabs that affects the majority of cinema-goers. In most of the States, the slabs at this level have been so arranged that a small increase in the payment for admission attracts an unduly large amount of tax. For example, in Uttar Pradesh and in Bombay, for admission tickets between four annas and eight annas the tax is two and a half annas, for tickets over eight annas and below one rupee the tax is five annas and for tickets over one rupee and below two rupees the tax is ten annas. If an exhibitor desires for valid reasons to alter the price of the relevant ticket from eight annas to ten annas, the tax is at once increased from two and a half annas to five annas and the total burden on the cine-goer, for a two-anna rise in the price of the ticket proper, is four and a half annas. Similarly, if the price of a ticket of one rupee is increased to Rs. 1-2-0, the tax thereon is increased from 5 annas to 10 annas, imposing a total burden of 7 annas for a two-anna increase in the price of the ticket proper. On the other hand, there is also a lack of flexibility under a slab system in regard to a downward adjustment. If, when purchasing power falls, the exhibitor wishes to reduce the price with a view to stimulating demand, he finds that while his price goes down, say, from Re. 1 to 12 annas, the tax thereon remains at the same level, viz., 5 annas. In effect, therefore, the State does not share in the loss on the individual ticket involved in the process of adjustment to a lower level of prices. There is, therefore, justification in the complaint that the slab system as it now prevails in some States stands in the way of the flexibility needed in the adjustment of admission rates. A tax on a percentage basis, with certain modifications, seems to us more suitable. In certain States, like Bengal and Bihar, the tax is in fact levied on a percentage basis. The Film Enquiry Committee also

favour the tax being levied on a percentage basis and has recommended that the rate of tax should be 20 per cent. of gross earnings, i.e., 25 per cent. of the admission charges. While we do not recommend any specific rates on an all-India basis, we are of the opinion that the rates of entertainment duty should be fixed on a percentage basis. To enable a certain degree of differentiation to be made in the percentage rates applicable to different classes of tickets, however, the percentages may be graded on a very broad basis, i.e., the percentage scale may be split up into a few percentage grades; we suggest that there should not be more than three grades. A percentage system with only a small number of grades is necessary for flexibility as against the rigidity with which the system works at present in many States. We further consider that there is in some States room for relief in respect of the cheaper categories of seats patronised by the large number of persons who belong to the low income groups. It is possible that the loss due to a reduction in the rate of duty may be counterbalanced by a consequential increase in the sale of tickets, as demand may be stimulated and optimum returns obtained with some scaling down in the rates of admission.

8. With minor variations, the scheme of exemptions from the entertainment tax is more or less the same in most States. We consider that the scheme as it obtains is needlessly complicated from the point of view of the Government and needlessly harassing from the point of view of those who provide the entertainment. There are two broad criteria which govern the present exemptions. One of them relates to the objects to which the proceeds from entertainment are applied. If the purpose is a philanthropic one and, provided the whole of the proceeds or the balance after deducting not more than a prescribed percentage as expenditure are devoted to an object recognised to be a philanthropic or charitable one, it is usual for the performance to be exempted from the entertainment tax. The second criterion concerns the character of the entertainment. Thus, it is provided by most States that entertainments of an 'educational' character—i.e., the subject-matter of which can be classed as pertaining to 'education' in the technical sense—shall be exempted from the tax; and this requirement is sometimes amplified to include "entertainments for scientific and educational purposes by a society, institution, etc. not conducted for profit". Thus defined in relation to the nature of its theme, the entertainment eligible for exemption can be readily distinguished from that which is not. But, other and broader terms are sometimes laid down in the regulations of State Governments in regard to the 'character' of entertainments qualifying for exemption. Thus, entertainments of 'cultural value' are said to be eligible for exemption; and sometimes, in view of the difficulties involved in reducing cultural values to a code of regulations, the State Governments grant or refuse in their discretion and on individual merits the exemptions asked for on the basis of cultural value. In some instances, however, a whole category is exempted such as the drama, classical music or Indian dances. Apart from the aspect that in many of these instances decisions are left to the *ad hoc* discretion of executive authority, one very widespread result of these complex provisions is that eager amateurs and philanthropic organisers have their enthusiasm damped at every stage once they have found it necessary to approach officialdom for exemption from the entertainment tax. We have drawn attention

to the fact that the bulk of the revenue from this tax is derived from the cinema. Indeed, in most States 90 per cent. or more of the relevant receipts are obtained from this source. The complicated rules which we have referred to, therefore, apply, by and large, to the remaining 10 per cent. or less of the receipts. We are of the opinion that, with little or no effect on revenue, the whole scheme of exemptions would be rendered simpler and better if entertainments were divided into 'professional' and 'non-professional' and the latter *wholly* exempted. So far as the 'professional' sector is concerned—and for one thing it would include the whole of the cinema—exemptions could be granted only where the proceeds of the particular entertainment are devoted to a philanthropic or charitable purpose; if thought absolutely necessary, a very few well-defined types of professional entertainments could also be exempted. In addition we suggest the establishment of small non-official advisory committees consisting principally of social workers to assist Government in deciding exemptions. Such committees will be especially useful in the bigger cities.

2. Tax on Prize Competitions

9. Prize competitions are taxed in Bombay and Mysore. The

Introduction

Bombay Prize Competitions Act, 1939, under which the tax was first introduced, limited the levy on an individual competition to $12\frac{1}{2}$ per cent. of the total sum received in respect of it. The Act was replaced in 1948 by a more comprehensive measure, not limited to taxation or to prize competitions, called the Bombay Lotteries and Prize Competitions Control and Tax Act. Under this Act, the maxima generally applicable are $12\frac{1}{2}$ per cent. on lotteries, and 25 per cent. on prize competitions, but Government have the power to increase the rate of the levy to 50 per cent. on individual prize competitions or lotteries. In Mysore, the tax was introduced in 1951. The Mysore Act of 1951, embodies regulatory and taxing provisions similar to those of the Bombay Act. The rates of tax are also the same. Under both the Acts, the term 'prize competition' includes specifically 'cross-word', 'missing-word', 'number' and 'picture' competitions, and generally (1) any competition in which prizes are offered for forecasts of results either of a future event or of a past event the result of which is not yet ascertained and not generally known (e.g., football pools), and (2) any other competition the success in which does not depend to a substantial degree upon the exercise of skill. It was made illegal to promote prize-competitions without a licence. By the offer of substantial prizes and other means, a fast growing clientele was being secured for these competitions, especially the cross-word puzzles. Accordingly, in the public interest and as part of the conditions of licence, the Government of Bombay thought it necessary to impose, in 1951, the following restrictions on prize competitions:—

- (1) the amount of total prize in any one competition should not be more than Rs. 30,000 ;
- (2) the number of competitions to be promoted during a year by any one licensee should not exceed seventeen ;
- (3) not more than eight entries should be accepted from any one competitor ; and

- (4) the licensee must deposit with Government, half the amount of prize money within a week of publication of the prize competition.

One result of these restrictions was that certain big promoters of cross-word competitions shifted their headquarters to outside the State of Bombay. The competitions themselves continued to appear in papers which circulated in Bombay as in other States. The Government of Bombay sought, by an amendment passed in 1952, to bring these competitions within the scope of its Act and Rules. This measure was challenged in the Bombay High Court, which has since decided that the amendment is *ultra vires* of the State Legislature in so far as it purports to be applicable to prize competitions promoted in States other than Bombay.

10. The receipts from the tax are as follows:—

Receipts from tax

TABLE 3.—*Receipts from the tax on prize competitions*

	Bombay	Mysore
	(In lakhs of Rupees)	
1950-51	19	..
1951-52	24	..
1952-53	15	4
1953-54	8	6
1954-55	9.5	6

The sharp decline in the receipts so far as Bombay is concerned is readily explained by the shifting of the bigger prize-competitions to outside the State and by the restrictions applicable to such of the competitions as are still situated in that State.

11. In the tax structure of States, this tax is obviously of minor importance. Further, the legislative measures pertaining to prize competitions and lotteries aim primarily at regulation and control and only secondarily at taxation and revenue. Even so, the experience of Bombay has shown how both control and taxation can be avoided if sought to be imposed by individual States. We note that the Press Commission recommends rigorous control over the publication of prize competitions in newspapers and periodicals. The Report of the Commission states, "the publication of entry forms for prize competitions in newspapers and periodicals is an unjournalistic activity and we recommend the insertion of a provision in the Act regulating the printing and publication of newspapers and periodicals, banning the printing of any form of entry to competition or prize schemes. Even in the case of purely intellectual amusements, we would limit awards to a maximum of Rs. 500 in any one month". It is clear that the control over prize competitions can be effective only if it is imposed and enforced on an all-India basis. We, therefore, recommend that the regulation and taxation of prize competitions should be taken over by the Central Government. The question of distribution of the receipts to States is not of particular importance as the revenue is not substantial. We consider that the Union may both impose the tax and retain the receipts; if, however,

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the alternative course is preferred, this tax can be added to the list of taxes included in Article 269 of the Constitution, i.e., those which are imposed by the Central Government but the receipts from which are distributed among the States in accordance with principles laid down by the Parliament. In either case, suitable amendments will have to be made to the Constitution, since the regulation and taxation of prize competitions are now within the State sphere of legislation.

3. Betting Tax

12. A betting tax on horse races is levied in the States of Assam, Bengal, Bombay, Madras and Uttar Pradesh among Part A States, Hyderabad and Mysore among Part B States, and Delhi among Part C States. The rates vary. The tax is levied on the stakeholder who may be either race club or bookmaker. The levy is on the totalisator, if one is provided by the race club. The betting tax was included in the Scheduled Taxes under the Government of India Act, 1919, and the first Province to levy it was Bengal in 1922. Other States followed suit, the last among them being Delhi State in 1953. During and after the War, the rates of tax were increased in most States; but where the increase was very steep it was found that the high rates tended to encourage illegal betting and would, therefore, have to be reduced. Thus, Bengal, which had increased the rate from 15 per cent. to 20 per cent. in 1947-48, reduced it to 12 per cent. in December 1950. Mysore, which had raised the rate from 8 per cent. to 20 per cent. in 1950, reduced it to 12 per cent. in 1951; it has since raised the rate to 15 per cent. The receipts from the tax and the prevailing rates of duty are shown in the following table:—

TABLE 4.—Receipts from betting tax

(In lakhs of Rupees)

	Year of introduc- tion of the tax	1946-47	1949-50	1952-53	1954-55 (budget)	Present rates (Per cent.)
1. Bengal	(1922)	118	91	63	62	12 ½
2. Bombay	(1925)	124	148	67*	119	12 ½
3. Mysore	(1932)	..	14	16	16	15
4. Madras	(1935)	..	28	18	16	12 ½
5. Uttar Pradesh	(1937)	4	9	5	4	10
6. Assam	(1939)	..	0.3	0.3	0.3	10
7. Hyderabad	(1949)	..	..	2	2	15
8. Delhi	(1953)	..	..	5	6	10

*The decline in receipts is mainly attributable to the fact that permission to operate in the race course was withdrawn from bookmakers. The permission was subsequently restored under certain conditions.

13. There can obviously be little evasion of the betting tax when it is collected on totalisators. False entries by licensed bookmakers are not easy to detect or prove, since the actual bets, especially the more substantial ones, are often concluded in an esoteric language of gestures not known beyond the bookmaker and the punter. The co-operation of the race club is enlisted by Governments to reduce this type of evasion. Another way of evasion is the placing of bets with unlicensed bookmakers; this is common where the tax is high. Where the rate is low, however, few punters like to run the risk of doing business with an unlicensed bookmaker.

14. The enactments governing the betting tax are principally regulatory in the nature of their provisions, and one of the concerns of State Governments has been to discourage the poorer sections of the population from gambling on horse races. Some of the relevant measures accordingly are:—

- (i) the levy of high admission fees and heavy entertainment duties;
- (ii) the prescription of a not unduly low minimum for units of bets; and
- (iii) the restriction of the number of racing days.

We have no special comments to make on the rates of the tax or on the arrangements for its collection in different States. We, however, recommend that the tax should be levied on all stake money including the winnings and levied not only on the winnings as is being done at present in a few States.

4. Electricity Duty

15. Bombay was the first State to levy an electricity duty. This it did in 1932 in the form of a tax on the sale or consumption of electricity. Since then the tax has been levied by Madras, Mysore, Travancore-Cochin, Bihar, Bengal, Madhya Pradesh and Uttar Pradesh. The electrical energy taxed is usually that consumed for domestic purposes and, in particular for lights and fans. To this there are certain exceptions. In 1949, the Bombay State extended the duty to power consumed by industry. The Uttar Pradesh, Madras and Travancore-Cochin Governments make no distinction for the purposes of the tax between domestic consumption and industrial consumption. In Mysore, where the tax is in the nature of a surcharge on tariff and is included therein, the levy is confined to energy supplied to industrial concerns and is not on domestic consumption. Rates, bases of levy and exemptions differ widely. The rates of duty range from 6 pies per unit to 1 anna 3 pies. The tax is in the form of:—

- (i) a flat unit rate with exemptions for small consumers (adopted by most States); or
- (ii) a percentage charge over the tariff rate subject to a maximum determined with reference to unit cost of energy (Uttar Pradesh); or

- (iii) a surcharge on the cost of energy supplied by Government to industrial undertaking for power purposes (Mysore).

While flat unit rates are usual for premises (with separate meters), a progressive duty, related to wattage of lamps, is sometimes adopted where the supply is unmetered or the connections are temporary.

16. The rates of duty vary considerably as percentage of tariffs, the highest percentage being over 60 per cent. in Bombay City (where the unit cost is relatively low) and the lowest 6·3 per cent. in Madras. As already stated, industrial energy is taxed only in certain States, e.g., Bombay, Mysore and Uttar Pradesh. In the Bombay State, the rate of duty for industries is small, being $\frac{1}{4}$ anna for every two units of consumption; moreover, for energy consumed in electro-metallurgical furnances, the duty is charged at the rate of $\frac{1}{4}$ anna for every five units, provided the cost of electricity is not less than 30 per cent. of the total cost of manufacture. The incidence of the Bombay duty is estimated at 0·6 per cent. of the total cost for a typical industry like textiles. In Mysore, the duty amounts to a surcharge of 10 per cent. on the tariff rates for industrial power. In Uttar Pradesh, the rate is 25 per cent. on all types of consumption. Though Madras and Travancore-Cochin make no distinction, for the purposes of the tax, between industrial use and non-industrial use of electrical energy, it has to be noted that the tax is recovered only when the charges for electricity exceed two annas a unit; as the supply rate for industrial use is for the larger part much less than this limit, the tax in these States hardly affects the energy consumed for industrial purposes. Electricity duty is usually levied on the consumer and recovered through the supply companies; in Madras and Travancore-Cochin, however, the liability to pay tax is on the licensee and it is stipulated that he should not transfer the duty to the consumer.

17. Exemptions from the tax are of two types: (1) under the Constitution, and (2) under the State Acts. The relevant Constitutional provisions are contained in Articles 287 and 288 and secure exemption for (1) electricity consumed by the Government of India, Federal Railways and any railway company operating a Federal railway (unless Parliament by law permits such a tax) and (2) electrical energy generated, consumed, distributed or sold by any authority established for regulating or developing any inter-State river or river valley (unless imposed by a State law to which the President has given his assent). In practice, no tax has hitherto been levied on electricity consumed by the Railways or the Government of India or on that produced, sold or used by inter-State River or River Valley Corporations. Exemptions under the State laws levying the electricity duty relate for the most part to (1) industrial consumption (in certain States), (2) domestic consumption (Mysore), (3) consumption by charitable institutions, hospitals, places of public worship, etc. and (4) small consumers. The last mentioned category of consumers is sometimes exempted and sometimes charged concessional rates. In the Bombay State, for example, a lower duty is levied in some of the bigger cities, on consumption below twelve units, while in the smaller towns no duty is levied on such consumption. In Bengal, no duty is levied on consumption below 100 units. Detailed information regarding the

rates of tax, bases of levy, exemptions etc. is given in Statistical Appendix 6.

18. The following figures relate to receipts from electricity Receipts from tax duties:—

TABLE 5.—Receipts from electricity duties

(In lakhs of Rupees)

States	1950-51	1951-52	1952-53	1953-54	1954-55 (Budget)
Bihar	12	12	14	23	22
Bombay.	1,87	2,02	1,99	2,26	2,08
Madhya Pradesh	7	8	9	10	10
Madras (including Andhra)	18	19	16	14	11
Uttar Pradesh	1	1	2	75	80
Travancore-Cochin	1	1	2	2	2
West Bengal	86	95	1,00	1,05	1,06
Total	3,12	3,38	3,42	4,55	4,39

It will be seen that the revenue from this source is small except in Bombay, West Bengal and Uttar Pradesh.

19. The taxation of electrical consumption has been supported on Justification for tax the grounds that—

- electricity is generally cheaper than other sources of light and power which are subject to a tax;
- in future when abundant and cheaper hydel power would be available, a small tax would benefit Government without imposing an undue burden on the consumer; and
- it is inexpensive to collect, provides an expanding source of income to State Governments and is not regressive because small consumers can be, and are, exempted.

20. While there is not much opposition to the levy of a tax on consumption of electricity for lights and fans, **Criticism of tax** Chambers of Commerce and other representatives of industry have expressed themselves against the tax on industrial consumption of electricity. They urge that, by increasing the cost of production, a duty on electricity hinders the development plans of industrial concerns. It is further argued, on behalf of electricity undertakings, that at a time when every effort is being made to expand the supply of electrical power, the imposition of such a tax will impede progress by discouraging industries from utilising electrical power. From Statistical Appendix 7, it will be seen that the total cost of electrical power (inclusive of the tax) in some of the typical industries does not exceed 2 per cent. of the total cost of manufacture. We find it difficult to agree that an electricity duty even at a very low rate is unjustifiable if it is levied on consumption for industrial purposes. Hence we would recommend the extension of

the duty on electricity to its consumption for industrial purposes, subject to the observations we make in paragraphs 22 and 24.

21. The differences in basis and rates have also come in for some criticism. It has been put to us that a tax in the form of a percentage charge on tariff rates (subject to maximum limits prescribed in the light of economic considerations) would yield adequate revenue to State Governments, while at the same time providing some uniformity in the tax. What is lost sight of in this suggestion is the wide variation that subsists between the tariff rates themselves. Assuming that the tax rate is 25 per cent. of the tariff, a consumer in an area where the supply rate is two annas per unit will pay half an anna as tax whereas in an area where the supply rate is six annas per unit, he will pay as much as one and a half annas per unit. The higher the supply rate happens to be, the higher will be the tax, making the total burden proportionately heavier. A not unsuitable method, therefore, is that adopted in Bombay where the tax is higher on cheaper supply rates and lower on costlier supply rates. At the same time, when duty is charged on energy used for industrial purposes, a rate thus linked to the tariff rate will not be suitable, since the electric companies charge very low tariffs for bulk supplies and if, on that ground, the State Governments levy a stiff rate, the burden on industry will be heavy. Accordingly, for bulk consumption, the volume of consumption will have to be taken into account no less than the tariff rates. The same considerations should apply to nationalised undertakings. The levy of a small tax on the electricity supplied by these concerns should not prove unduly burdensome. Such a levy would be preferable to the introduction of an appreciable tax element into the tariff rates themselves, firstly as the true position will be apparent to the public, and secondly, as this will obviate any discrimination in this context between private companies and State undertakings.

22. In regard to rates which take into account the varying tariffs of supply, it is obvious that there cannot be much uniformity not only between different States but even between different areas of a State. For gradation of rates, the main considerations would seem to be:—

- (1) on lights and fans the rates should be reasonably low;
- (2) on other domestic appliances they should be lower; and
- (3) on industrial consumption they should be lowest of all, and in fact extremely low.

The rates of tax on energy consumed for lights and fans should, because of the wide differences in the supply rates, be so adjusted as to make the total burden of power costs equitable and also to encourage the use of electricity in smaller towns and rural areas.

23. In regard to power used for domestic appliances, a distinction in such consumption for rate purposes has been advocated on the ground that the extension to other categories of the same rate as for energy used in lights and fans will add considerably to the cost of using appliances like frigidaires, heaters, radios, etc., and discourage their use. It is pointed out that the consumption of energy is larger in the case of these appliances than for lights and fans; it is therefore argued that they should be charged a lower rate of duty.

It is also pointed out that it is not unusual for the supply companies too to have one set of tariff rates for lights and fans and another for other domestic appliances. The drawing of such a distinction for purposes of electricity duty has, however, been opposed by some on the ground that it would lead to an increase in the cost of installation for the consumer and in the cost of inspection etc. for the administration. The objection does not seem to us valid. As already mentioned, many supply companies charge a lower rate for energy consumed for domestic appliances; and, for that reason, separate meters are usually installed for lights and fans and for frigidaires, heaters, radios, etc. Secondly, the use of such electrical appliances is on the increase and it is the course of wisdom, even from the point of view of revenue, to facilitate extension of the use. A distinction in the relevant rates of duty is, therefore, appropriate and desirable. At the same time, the duty on the energy consumed by domestic appliances cannot well be on a par with the very low rates which would be proper for the energy consumed for industrial purposes. The appliances are used by well-to-do persons, and the intermediate grade of duty we have suggested should not prove burdensome in its incidence.

24. Certain points have to be mentioned in regard to the rates of tax on power used for industrial purposes. The assumption that the incidence of the electricity duty on industries is negligible would be correct only if the cost of electricity constitutes a small part of the total cost of production. But there are certain industries where the power costs constitute a substantial item of the cost of manufacture, e.g., industries which use electric furnaces or are based on electro-chemical or electrolytical processes. The rate of levy has to be specially low for such industries if their cost structure is not to be upset. Specially low rates (or even exemption) would be justifiable in another context, viz., that of cottage and small-scale industries, in order that these may adapt themselves to methods of production that will result in greater productivity.

25. We have already pointed out that the exemptions provided in the Constitution are such that they can be withdrawn, as and when appropriate, by Parliamentary enactment or by State laws to which the President accords his assent. We have no specific comments to make on these exemptions or on the other classes of exemptions which now obtain, such as those in favour of charitable institutions etc. and of the smaller consumers.

5. Other Miscellaneous State Taxes

26. The professions tax and the property tax have special relevance to local bodies, even though they are levied direct by a few State Governments: the professions tax, for example, by Assam and Madhya Pradesh and the property tax (as 'urban immovable property tax') by Bombay and the Punjab. We accordingly reserve the detailed discussion of these two taxes for the section on Local Taxation. Among the miscellaneous taxes which remain to be noticed here are:—

- (i) Registration Fees;
- (ii) Tobacco Duties;

- (iii) Sugarcane Cess;
- (iv) Raw Jute Cess; and
- (v) Inter-State Transit Duties.

27. (i) *Registration Fees*.—These fees are levied under the Indian Registration Act, 1908, which contains the law concerning the registration of documents. Among the benefits secured by registration are:—

- (a) reasonable guarantee about the genuineness of the document;
- (b) maintenance of a permanent record in the Registration Department; and
- (c) security of title deeds and facility of proof to the titles conferred under them.

Certain documents are compulsorily registerable and are not admissible as evidence in law courts unless registered. The rates of registration fees vary from State to State and are on an *ad valorem* basis. The receipts from registration fees and the expenditure on the Registration Departments of different States are shown below:—

TABLE 6.—*Receipts and expenditure on registration*
1954-55

(In lakhs of Rupees)		
States	Receipts	Expenditure
Part A		
Andhra	31	16
Assam	5	2
Bihar	61	16
Bombay	30	16
Madhya Pradesh	25	5
Madras	80	39
Orissa	12	4
Punjab	9	0.2
Uttar Pradesh	28	14
West Bengal	45	19
Total Part A States	326	131.2
Part B		
Hyderabad	8	4
Madhya Bharat	2	2
Mysore	11	5
PEPSU	4	0.2

TABLE 6.—Receipts and expenditure on registration—contd.

State	Receipt	Expenditure
Rajasthan	3	2
Saurashtra	8	2
Travancore-Cochin	29	14
Total Part B States	64	29·2
<i>Part C</i>		
Bhopal	0·24	0·06
Coorg	0·23	0·05
Delhi	5·02	0·44
Himachal Pradesh	0·28	0·02
Vindhya Pradesh	0·40	0·20
Total Part C States	6·17	0·77
GRAND TOTAL	396·17	161·17

Beyond remarking that registration fees are more or less in the nature of specific charges intended for covering the expenditure on specific services rendered by the State, and that this principle should be broadly kept in mind in fixing the rates, we have no particular comments to make on this item.

28. (ii) *Tobacco Duties*.—A tax on the sale of tobacco was levied under special Acts in Bombay, Madras, Madhya Pradesh and the Punjab. Bengal levied it for a period of three years preceding provincial autonomy, but the measure was allowed to lapse and no tax on tobacco was levied till 1942 when the general sales tax was introduced in Bengal and covered tobacco along with other commodities. In Bombay, the tax was levied under two Acts, viz., the Tobacco Duty (Town of Bombay) Act, 1857, and the Bombay (District) Tobacco Act, 1933. Both the Acts were amended in 1938 and the rates of tax were increased. Under the former Act, two taxes were levied, viz., a maundage tax at the rate of Rs. 30 per maund of tobacco imported into the town of Bombay and a licence fee ranging from Re. 1 to Rs. 48 on retail dealers. Under the Bombay (District) Tobacco Act, 1933, a licence fee, varying from Rs. 2-8-0 to Rs. 50 according to turnover, was levied on sellers of tobacco throughout the Province (except the city of Bombay) and an additional sales tax at the rate of 12 per cent. of the last wholesale sale was levied on an *ad valorem* basis on dealers in a few notified towns. In Madras, under the Madras Tobacco (Taxation and Licensing) Act of 1939, the tobacco dealers were licensed and dealers were classified as wholesale and retail. So far as retail dealers were concerned, the tax was levied as a percentage of annual turnover; the rate was 3 per cent. on the first Rs. 400 (subject to a minimum of Rs. 6) and 10 per cent. on the portion of turnover above that figure. For wholesalers, the rate of levy was 2 per cent. of the turnover. The Madhya Pradesh Act (the Central Provinces and Berar Tobacco Act, 1939) introduced a different system of graduation. The licence fee on

wholesalers was Rs. 125, while for retailers it varied from Rs. 5 to Rs. 50 depending upon the population of the dealer's village, the annual rental value of his shop and the type of tobacco (superior or inferior) sold by him. Dealers in villages with a population of less than 2,000 were exempted; so too were all hawkers. Under the Punjab Tobacco Vend Fees Act, 1934, a small licence fee was levied on all dealers of manufactured tobacco in municipal areas and such other areas as were notified.

29. When the Government of India imposed its Central excise duty on tobacco with effect from 1st April 1943, the provincial Governments which were levying duties on tobacco under special Acts were persuaded to give up their taxes and were compensated for the revenue foregone. The amount of compensation was fixed as follows:—

Bombay	...	Rs. 29 lakhs
Madras	...	Rs. 22 lakhs
Madhya Pradesh	...	Rs. 1.5 lakhs
Punjab	...	Rs. 6,000

On representations made by the States of Madras and Bombay regarding the inadequacy of these amounts in the context of growing consumption of tobacco and tobacco manufactures, the Government of India increased the amounts of compensation payable to Bombay and Madras to Rs. 54 and 56 lakhs, respectively, with effect from 1949-50. The compensation payable to Punjab was withdrawn after the partition, while that payable to Madhya Pradesh remained unchanged. The Finance Commission, which examined the question, recommended that the States should be left free to levy their own taxes on tobacco and the arrangements for compensation terminated. This recommendation was accepted by the Government of India and the arrangements have ceased to be in force since April 1953.

30. At present, six States, viz., Andhra, Madhya Pradesh, Madras, Punjab, PEPSU and Travancore-Cochin levy tobacco duties under special Acts and realise the following receipts:—

TABLE 7.—Tobacco Duties

(In lakhs of Rupees)

State	1951-52	1952-53	1953-54	1954-55 (Budget)
Andhra			16	18
Madhya Pradesh	4	4	4	4
Madras	57	56	30	40
Punjab	2	..	..	5
PEPSU	22	21	22	21
Travancore-Cochin	23	12	11	11
TOTAL	1,62	1,47	83	99

In Andhra and in Madras, the tax on the sale of tobacco is levied under the Madras Tobacco (Taxation of Sales and Registration) Act, 1953, which came into force on 20th April 1953. The tax is levied at only one point and is on the sales of 'taxed tobacco' which comprises cigarettes, cigars, cheroots, cigarette tobacco and pipe tobacco. No tax is levied on biris, snuff or chewing tobacco under this Act, though their sales are liable to the general sales tax. The rates of tax are as follows:—

Cigarettes

- | | |
|--|----------------------------|
| (i) sold at three pies or above but less than six pies per cigarette | 10 per cent. of turn-over. |
| (ii) sold at six pies or above but less than nine pies per cigarette | 20 per cent. of turn-over. |
| (iii) sold at more than nine pies per cigarette | 30 per cent. of turn-over. |

Cigars and Cheroots

Sold at two annas or above per cigar or cheroot	30 per cent. of turn-over.
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<i>Pipe and cigarette tobacco</i>	30 per cent. of turn-over.
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Cheaper varieties of cigarettes, cigars and cheroots, i.e., those sold at rates lower than the above, are exempt from this special tax.

31. On termination of its agreement with the Government of India, Madhya Pradesh has reimposed the licence fees leviable under the Act of 1939 which was kept inoperative from 1st April 1943 to 30th April 1953.

In Punjab, the older vend fees were at first not revived but tobacco was made liable to the general sales tax. Recently, however, on account of large-scale smuggling from neighbouring States and evasion of sales tax, the Punjab Government has re-introduced the Tobacco Vend Fees Act in replacement of the sales tax on manufactured tobacco.

In PEPSU, the right to deal in manufactured tobacco has to be purchased in auction; so has the right to prepare manufactured tobacco, which includes biris and snuff.

In Travancore-Cochin, licence fees continue to be levied on the sale of tobacco. There are three classes of licences: 'A' licence for stockists, 'B' for wholesalers and 'C' for retailers. Only A class licencees can import tobacco from outside the State; and they can sell only to other stockists or wholesalers. The licence fees for stockists varies from Rs. 1,000 to Rs. 1,500 for prescribed minimum quantities which are: 100 khandies for raw tobacco, 25 khandies for biris, and the value of Rs. 20,000 for other products. For additional quantities, Rs. 750 are charged for each 100 khandies or fraction thereof. The licence fee for wholesalers is Rs. 150, irrespective of the quantity dealt with, and for retailers, Rs. 5. The retailers are required to buy only from the B class licencees, i.e., wholesalers, and keep in stock not more than 10 lbs. of tobacco and tobacco products at a time.

In the other States, tobacco and tobacco manufactures are made liable to the general sales tax. In a few States, chewing tobacco and

hookah tobacco are exempted; while, in some, higher duties are levied on cigars, cheroots, and pipe tobacco.

32. The main question to be considered in relation to the sales tax or special taxes on tobacco and tobacco manufactures is their incidence in relation to the Central excise duties. Several complaints have been received by us about the unduly heavy burden of the Central and State taxes on tobacco and tobacco manufactures. These goods are also liable to the octroi duties of municipalities in many instances. The need is obvious for ensuring proper co-ordination between the different taxes on tobacco levied by the Central Government, the States and the local authorities. We consider that such co-ordination would be best evolved through the machinery of the Inter-State Taxation Council to which we have already alluded.

33. (iii) *Sugarcane Cess*.—The Sugarcane Cess was first levied by the United Provinces in 1938. Bihar followed suit with a similar measure in 1939. The Cess was introduced in Bombay in 1948 and in Hyderabad in 1953. The authority for the levy was at one time Entry 49 of the Provincial List of the Government of India Act, 1935 which related to "cesses on the entry of goods into a local area for consumption, use or sale therein"; after the coming into force of the Constitution, the cess is levied under Entry 52 of the State List. It may be noted that octroi duties of local authorities are also levied under the same entry. For purposes of the cess, a sugar factory is defined as a 'local area' and the sugarcane entering the premises of the factory for consumption, use or sale therein is made liable to the levy. The cess is payable on all the sugarcane which enters the 'local area' thus defined, irrespective of whether it has been purchased by the factory or been grown by it on land that it owns.

34. The rate of the cess, which was originally six pies per maund of sugarcane, has been increased from time to time in Uttar Pradesh and Bihar. The following table gives the rates prevailing at present in the different States and the receipts from this cess:—

TABLE 8.—*Rates of and receipts from sugarcane cess*

(In lakhs of Rupees)

State	Rate of cess	Receipts				
		1950-51	1951-52	1952-53	1953-54	1954-55 (Budget)
Bihar	3½ as. per maund	126	103	115	147	113
Bombay	Rs. 5 per ton	46	36	60	65	54
Hyderabad	Rs. 4 per ton	..	..	..	7	15
Uttar Pradesh	3 as. per maund	217	324	316	350	350

The proceeds from the cess are funded in Bombay for the development of sugarcane and other irrigated crops, for the development of sugar industry and for the improvement and development of agriculture in general. In the other States, the receipts are credited to general revenues.

35. By way of comment on this tax we would only sound a note of warning against any extension of a practice by which small 'local areas'—in this case the premises of factories—are set up by definition and State Governments start taxing the goods which enter therein. It seems to us clear that Entry No. 52 of the State List—"taxes on the entry of goods into a local area for consumption, use or sale therein"—was not intended to be made use of by the State Governments as an authority for taxing the raw materials of industries by defining the premises of an industrial concern as a 'local area'. We believe that the term 'local area' has been used therein to denote the area of a local authority. It was in this sense that the relevant power was utilised until the sugarcane cess came to be levied. Any extension of the use of this entry by State Governments for the purpose of taxing agricultural or mineral products or raw material would for many reasons be undesirable. We recommend that the State Governments should not hereafter utilise entry 52 of the State List for imposition of their own taxes but should reserve it in the usual manner for local authorities like municipalities, village panchayats, etc.

36. (iv) *Raw Jute Cess*.—This tax has been in force in Bengal since 1942 under the Bengal Raw Jute Taxation Act, 1941. It is levied at the rate of two annas on every maund of raw jute purchased by a mill or by a person exporting jute out of Bengal. The mills and exporters are required to register themselves, send monthly returns of their purchases and pay the tax every month. It is, in effect, a purchase tax on jute collected from registered mills and exporters. As very little of the raw jute is retained for local consumption and as it is grown by numerous growers, the point of purchase is undoubtedly the most convenient for taxing this commodity. The proceeds from this tax amounted to about Rs. 43 lakhs for undivided Bengal. West Bengal obtains from it a revenue of about Rs. 33 lakhs.

37. Under the scheme of sales tax recommended by us, it will no longer be possible for the Bengal State to levy this tax at a rate higher than one-fourth of an anna in the rupee. But any loss from a reduction in the rate of this tax will be more than made up by the receipts that the State will realise from the tax on inter-State transactions and in general by the increase in revenue implicit in our suggestions regarding sales tax in their application to Bengal.

38. (v) *Inter-State Transit Duties*.—Under Article 306 of the Constitution, a Part B State which before the commencement of the Constitution was levying a tax on imports or exports (which tax is now called inter-State transit duty) is permitted to continue to levy and collect such tax under an agreement with the Government of India for a period not exceeding ten years from the commencement of the Constitution. The Article, however, gives the President

power to terminate or modify the agreement on the recommendation of the Finance Commission. As a general principle, of course, the Constitution prohibits the levy by any individual State of a tax on the imports into or exports from its territories; and it is as a purely transitional arrangement that an exception has had to be made in the case of Part B States. The customs revenue collected at their borders by many of the former princely States formed an appreciable part of their revenues. In some instances, the customs duties were abolished on the integration of these States with the rest of India. Financial reasons rendered this course impracticable in a few other States especially those in which a bigger unit was formed out of several smaller princely States. The order of the problem which remained may be judged from the fact that for all such States together, the revenue from customs amounted to as much as Rs. 9.3 crores or 15 per cent. of the total tax revenue of these States.

39. Some of the details may be recalled. Mysore and the States comprised in PEPSU did not, even prior to integration, levy customs duties. Of the two former States of Travancore-Cochin, only the former levied these duties; the revenue it derived from them was about Rs. 1 crore. In this instance, it was practicable to abolish the duties after some adjustments had been made in the Central grant intended for filling the gap in the revenue budget. For the remaining States—Hyderabad, Madhya Bharat, Rajasthan and Saurashtra—the customs duties had greater importance. In Hyderabad, in addition to the import and export duties, surcharges were levied on exports of certain goods like oil seeds; the receipts of the State from the duties and the surcharges was about Rs. 4 crores a year. In the States which constituted Saurashtra, import and export duties were levied on inter-State movement of goods both by land and sea. In addition, there was a special duty on the export of groundnuts to the rest of India by land or sea. The total receipts realised just before integration were about Rs. 85 lakhs. In the context of integration, Saurashtra abolished the import and export duties by sea or land and continued only the export duty on groundnuts. In Madhya Bharat, the import and export duties yielded about Rs. 2 crores, while Rajasthan realised about Rs. 4 crores from them. For Part B States generally, the Indian States Finance Enquiry Committee recommended the abolition of these duties within a period of three to five years. Specifically, the periods recommended were: three years for Madhya Bharat, four years for Saurashtra and Hyderabad and five years for Rajasthan. The Committee also suggested that these States should develop alternative sources of revenue like sales tax, agricultural income-tax, entertainment tax, etc. Eventually, under the agreements that were entered into between the Government of India and the Part B States concerned, it was stipulated that the internal customs duties should be abolished within a period of four years from 1950-51 in Hyderabad and within five years in Saurashtra, Madhya Bharat and Rajasthan.

40. In accordance with these agreements, the States in question (with the exception of Rajasthan) have been taking steps for the gradual abolition of customs duties (and their replacement by other—

Present position regarding the duties

measures of taxation), as will be seen from the following table:

TABLE 9.—*Inter-State Transit Duties*

(In lakhs of Rupees)

State	1950-51	1951-52	1952-53	1953-54	1954-55
Hyderabad	3.54	4.03	2.93	1.30	1.35
Madhya Bharat	1.41	1.27	1.14	1.00	.85
Rajasthan	3.73	4.19	3.70	3.95	3.54
Saurashtra	.63	.40	.37	.22	.10

In Saurashtra, the only tax of the type mentioned which still remains is the export tax on groundnuts; the present revenue from it is about Rs. 10 lakhs. In Hyderabad, the rates of import and export duties were reduced in 1950-51; in the following year, the import duty was abolished on a large number of articles; later, when the general sales tax was introduced, only the export duties and surcharges on certain articles were retained; recently, the surcharges have been withdrawn, and by the end of the current year the customs duties are likely to be totally abolished. According to the agreement, Hyderabad was to abolish its customs duties in four years, i.e., by the end of 1954, but the period has been extended by one year. The Madhya Bharat Government have taken steps to replace the import duties by a selective sales tax and have reduced its receipts from customs duties from nearly Rs. 2 crores before integration, to Rs. 85 lakhs in the current year. As the period for the total abolition of customs duties expires at the end of the current year, the Madhya Bharat Government are considering the introduction of a general sales tax in place of the present selective sales tax. In Rajasthan, however, the problem remains substantially what it was at the time of integration. The inter-State transit duties continue to be levied at the same rates as in 1950; and the receipts under this head amount to nearly Rs. 4 crores. The State Government have recently introduced a Bill for the levy of a general sales tax; but the prospect of its achieving the abolition of inter-State duties within the stipulated time and of its being able, at the same time, to balance its budget by alternative taxation cannot be said to be very bright. We are in agreement with the principle that these duties should be abolished within a reasonable period and endorse the view that the States which have been levying them should make every possible effort to meet the loss in revenue by utilising other sources of taxation.

CHAPTER IX

STATE EXCISES

Among the major sources of revenue which are available to State Governments are duties of excise on 'alcoholic liquors for human consumption'. This was the position under the Government of India Act, 1919; it remains much the same under the Constitution of India. Under entry 51 of List II of the Seventh Schedule to the Constitution, the States are empowered to levy—

Introduction

"Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India:—

- (a) alcoholic liquors for human consumption;
- (b) opium, Indian hemp and other narcotic drugs and narcotics;

but not including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry."

2. The revenue from this source represents 8·7 per cent. of the aggregate tax revenues of State Governments in 1954-55. But while, in many other countries, it is principally considerations of revenue that have influenced public policy in the levying of duties on intoxicants, it can be asserted that in India excise duties have been levied more with a view to restricting consumption of intoxicants than to raising revenues. The Government of India in their resolution dated 7th September 1905 described the general lines of their excise policy in the following terms:—

Excise policy as laid down in 1905

"The Government of India have no desire to interfere with the habits of those who use alcohol in moderation and it is necessary in their opinion to make due provision for the needs of such persons. Their settled policy, however, is to minimise temptation to those who do not drink and to discourage excess among those who do, and to a furtherance of this policy, all considerations of revenue must be absolutely subordinated. The most effective method of furthering this policy is to make the tax upon liquor as high as it is possible to raise it without stimulating illicit consumption to a degree which would increase instead of diminishing the total consumption and without driving people to substitute deleterious drugs for alcohol, or a more or less harmful form of liquor. Subject to the same consideration, the number of liquor shops should be restricted as far as possible and their location should be periodically subject to strict examination with a view to minimise the temptation to drink and to conform as

far as is reasonable to public opinion. It is also important to secure that the liquor which is offered for sale is of good quality and not necessarily injurious to health".

3. For a majority of the States, excise on alcoholic liquors has been second in importance among their sources of revenue. For some States, receipts from excise duties are even larger than from land revenue. During the War, receipts from excise duties increased very considerably practically in all States. Today, excise duties form an important source of revenue for a large number of States, including those which have gone in for partial prohibition. The trend of receipts before and after the War in different States will be seen from the following table:—

TABLE 1.—*Figures showing trend of Excise receipts*

(In crores of Rupees)

S. No.	State	1937-38 Accounts	1946-47 Accounts	1948-49 Accounts	1950-51 Accounts	1954-55 Budget Estimates
<i>Part A States</i>						
1.	Andhra	..	..	..	..	0.08
2.	Assam	0.36	0.82	0.95	0.93	1.20
3.	Bihar	1.22	5.15	4.85	5.26	4.71
4.	Bombay	3.22	9.74	6.17	1.07	0.68
5.	Madhya Pradesh . .	0.67	2.24	2.19	2.31	2.42
6.	Madras	4.03	14.68	3.67	0.55	0.21
7.	Orissa	0.34	1.11	1.36	2.13	1.51
8.	Punjab	1.07	3.32	2.38	2.08	2.36
9.	Uttar Pradesh . .	1.45	6.74	6.53	6.51	5.38
10.	West Bengal . . .	1.55	6.42	6.22	6.20	5.06
<i>Part B States</i>						
11.	Hyderabad	..	..	..	9.69	8.84
12.	Madhya Bharat . .	..	..	..	1.89	1.56
13.	Mysore	..	..	..	2.00	1.54
14.	PEPSU	..	..	..	1.90	1.73
15.	Rajasthan	..	..	..	2.49	2.46
16.	Saurashtra	..	..	..	0.15	0.06
17.	Travancore-Cochin .	..	..	..	2.18	2.12

TABLE 1.—*Figures showing trend of Excise receipts—contd.*

(In crores of Rupees)

S. No.	State	1937-38 Accounts	1946-47 Accounts	1948-49 Accounts	1950-51 Accounts	1954-55 Budget Estimates
<i>Part C States</i>						
18.	Ajmer	..	..	..	..	0.28
19.	Bhopal	..	..	..	..	0.16
20.	Coorg	..	..	..	..	0.11
21.	Delhi	..	..	..	..	1.14
22.	Himachal Pradesh	..	..	..	..	0.15
23.	Vindhya Pradesh	..	..	..	..	0.31
TOTAL						44.01

4. As indicated earlier, the excise policy in general has been one of temperance and of restricting the consumption of intoxicating drinks. State Governments try to minimize the consumption by levying heavy duties on the different kinds of drinks. The rates of duties are heaviest on foreign liquors and vary from Rs. 35 in Mysore to Rs. 93 in Bombay. On country liquors, the rates vary from Rs. 9/4/- per gallon in Travancore-Cochin to Rs. 30 in Bombay, while on country spirit they vary from Rs. 15 in Vindhya Pradesh to Rs. 54 in West Bengal. In addition to the excise duties, licence fees are charged for manufacture or sale of liquor or for tapping toddy trees, etc. Similarly, several fees-like permit fees, vend fees, outstill duties are also levied. Manufacture or sale of liquor is forbidden except under licences which are generally granted by auction to the highest bidders. The manufacture of country spirit is done in Government distilleries or under the direct supervision of the excise staff.

All supplies are drawn from Government warehouses which ensures that the liquor is not more than of the prescribed strength. The licensed sellers have to sell the country spirit between fixed hours and at fixed selling rates. As in the case of country spirit, the right of tapping and selling toddy is also auctioned. In addition to the licence, in some States the licensee has to pay a tree tax to Government except in hilly areas where the tax is not recovered and the right of tapping is enjoyed by persons belonging to the scheduled tribes. The sale of other alcoholic drinks and of intoxicating drugs is also permitted only through licensed dealers.

5. While till 1921, the policy was one of regulation and of discouraging the use of alcoholic drinks in excess, after 1921, i.e., with the introduction of the first Constitutional Reforms, the movement towards prohibition gained strength and resolutions declaring that prohibition was the ultimate goal of excise policy were passed by several

State legislatures. During the period of 1921 to 1937, several State Governments took measures to minimise the consumption of alcoholic drinks by the enforcement of stricter controls over the manufacture and distribution of intoxicating liquors, by raising excise duties, auction bids, licence fees, etc. and by imposing heavy penalties on illicit distillation. In a few States, Committees were appointed to investigate the possibilities of reducing the revenue from excise or of introducing prohibition. It cannot be said, however, that these steps led to any appreciable curtailment of consumption or loss of revenue. There was all the same, some decline in revenue in several States as the result of the picketing of liquor shops and toddy booths that was resorted to as part of the Civil Disobedience Movement in 1930-31 and 1932-34. The enforcement of complete prohibition, it may be noted, figured as the first item in the national demand submitted by Mahatma Gandhi to the British Government in 1931.

6. With the inauguration of Provincial Autonomy in 1937 came the installation in office of Congress Ministries, except in Bengal, Punjab and Sind. Several of the Provincial Governments declared their policy to be that of complete prohibition. A few, among them, Madras and Bombay, started implementing this policy in well-defined stages. When World War II broke out, the Congress Ministries resigned. With their withdrawal, the policy of prohibition received a setback in the provinces where it had been adopted. While, in a few States, prohibition was not allowed to be extended beyond the areas where it was in operation, in some States the restrictions previously imposed were relaxed and in others there was complete reversal. In consequence, as mentioned above, during the War, receipts went up to figures never reached before, partly because of inflationary conditions and partly owing to the influx of Defence Forces from abroad. With the resumption of office by the popular Ministries, prohibition was once again accepted officially as the goal of excise policy by a majority of the State Governments. Subsequently, prohibition came to be included in the directives of social policy set forth in the Constitution. In Article 47, the Constitution directs that the States "shall endeavour to bring about prohibition of consumption except for medicinal purposes of intoxicating drinks and of drugs which are injurious to health".

7. We may now review the excise policy of various State Governments and the effect it has had on their revenues. The opium policy decided upon by international agreement is one that is regulated at the instance of the Government of India. Under the Resolution of the All-India Opium Conference, 1949, the consumption of opium, except for medicinal or scientific purposes is to be prohibited. This prohibition is to be achieved within a period of ten years by imposing a ten per cent. cut in consumption every year. The production of opium is a monopoly of the Government of India who, in pursuance of this policy, regulate the allotments of the quota of opium to the States. After 1959, opium will not be sold except for medicinal and scientific purposes. As regards other intoxicants, the different States in India can be divided into the following three broad groups on the basis of their excise policy:—

Present policies in different States

1. *Complete Prohibition.*—Bombay, Madras, Andhra and Saurashtra.

2. *Partial Prohibition*.—Uttar Pradesh, Madhya Pradesh, Mysore, Orissa, Travancore-Cochin and Coorg.

Others:

- (a) *States with some dry areas*.—Assam and Punjab;
- (b) *States observing a temperance policy*.—Bihar, West Bengal and Madhya Bharat;
- (c) *Other States*.—Hyderabad, PEPSU, Rajasthan, Himachal Pradesh, Ajmer, Bhopal, Delhi and Vindhya Pradesh.

8. *Bombay*.—In Bombay, in 1938 the Congress Ministry introduced the Prohibition and Dry Area schemes in certain selected parts of the Province. In the latter part of 1939 the Ministry resigned, and thereafter particularly because of the situation created by the High Court decision, the Governor who assumed charge of the administration under Section 93 of the Government of India Act, thought it best not to pursue the prohibition policy further. In view of the modification of the policy and with the gradual emergence of inflationary conditions, during the War, the revenues of the State Government from excise began to mount up. Excise receipts which amounted to Rs. 2.8 crores in 1938-39, increased to Rs. 3.7 crores in 1942-43 and to Rs. 9.7 crores in 1946-47. In fact, in 1946-47 it was the largest single source of tax revenue, yielding about 34 per cent. of the total tax revenues. With the resumption of responsible Government in 1946, a decision was taken by the Congress Ministry to bring about complete prohibition in the State by gradual stages within three years from 1st April 1947. Progressive reduction in consumption was ensured by—

- (i) closure of excise shops for 2 days in 1947-48, 3 days in 1948-49 and 5 days in 1949-50,
- (ii) progressive reduction in the number of shops, and
- (iii) reduction in the strength of liquor in the case of country liquor.

In this manner, complete prohibition was brought about in the State with effect from 6th April 1950. A separate law called the Bombay Prohibition Act, 1949, has been enacted for giving effect to this policy. Members of the armed forces, diplomatic representatives of foreign countries, visitors from foreign countries and temporary residents are granted foreign liquor permits subject to certain conditions. Permits for consumption of foreign liquor, opium, ganja, or bhang are also granted to the residents of the State on grounds of health, while the use of these intoxicants for medicinal purposes is permitted under a system of licences. The cost of enforcement is estimated at Rs. 86 lakhs (and is mostly due to additional police) against expenditure amounting to Rs. 79 lakhs incurred on the maintenance of the Excise Department in 1946-47—the last pre-prohibition year. Prohibition has, however, not involved complete extinction of receipts from excise. As some restricted consumption is permitted, the Bombay Government realise about Rs. one

crore a year from the levy of a special sales tax on intoxicants and from excise duties and vend fees.

Madras.—In Madras, prohibition was introduced in the middle of 1937-38 in one district and extended to one more district in 1938-39. With the resignation of the Congress Ministry, not only was the policy of prohibition not implemented further but it was suspended, partly in 1944 and completely in 1945. With a responsible Ministry again assuming office, the policy of prohibition was revived in 1946-47 and extended. By 1948-49, prohibition was introduced in all the districts of the State. During the War, excise receipts were much larger than receipts from land revenue. The receipts which in 1938-39 amounted to Rs. 3·8 crores, increased to Rs. 16·8 crores in 1945-46 against Rs. 8 crores from land revenue during the same year. They have now dropped to about half a crore of rupees with the enforcement of complete prohibition. The receipts that are derived now are from excise duties, sales tax on foreign liquor at the rate of eight annas per rupee and vend fees on such production and sales as are permitted under certain restrictions.

Andhra.—In Andhra, which was a part of Madras till recently, the same conditions prevail. A Committee was recently appointed to examine the working of prohibition in the State. This Committee has made several recommendations and suggested a revision of the prohibition policy. Though the State Government have not accepted the recommendations of the Committee, they have decided to permit the consumption of foreign liquor and also to permit the tapping, sale and consumption of *neera* under the supervision and control of local panchayats or some other suitable agency.

Saurashtra.—In the pre-integration days, there was complete prohibition, since 1923, in the leading State of Bhavnagar. Prohibition throughout Saurashtra was, however, introduced in 1950 when the Prohibition Act of Bombay was applied to the State and the manufacture and consumption of country liquor were totally prohibited while intoxicants were permitted under strict regulations and under a permit system as in Bombay. Before the introduction of prohibition, Saurashtra realised Rs. 8·4 lakhs from excise duties. The low realisations from excise duties were mainly due to there being a smaller number of duties levied at nominal rates and to prohibition being in force in the area of the former State of Bhavnagar. The rates have since been increased and at present, Saurashtra realises about Rs. 6·2 lakhs of which Rs. 5·0 lakhs are from duties on opium and hemp drugs.

9. Since the resumption of office by responsible Ministries in 1946, some States have gone in for a programme of partial prohibition. There is prohibition introduced in a few districts and a policy of restricting consumption of intoxicants is adopted in others.

Uttar Pradesh.—In Uttar Pradesh, there is prohibition in eleven districts and the measures taken for restricting consumption in other districts are:—

- (1) closure of excise shops within a five-mile belt of dry districts,

- (2) closure of cinema bars and reduction in the number of restaurant bars,
- (3) curtailment of hours of sale for all urban shops,
- (4) imposition of restrictions on the quota of country spirit for each district, and
- (5) increase in the rates of excise duties.

The excise revenue in Uttar Pradesh was Rs. 1.2 crores in 1938-39. It reached the peak figure in 1947-48 with receipts amounting to Rs. 6.7 crores. Thereafter, the revenue has been declining on account of the policy of partial prohibition adopted by the Government and in 1954-55 it is expected to be about Rs. 5 crores.

In Madhya Pradesh, one-third of the area of the State has been declared 'dry'. There is prohibition in six out of ten districts in Mysore, and in three out of thirteen districts in Orissa. In Travancore-Cochin, thirteen talukas out of thirty-six are dry. In Coorg, the partial prohibition takes the form of reduction in the permissible consumption. Since 1949, the retail sale of arrack has been restricted to eight drams per head per month to those who are more than 21 years of age.

10. In Assam, complete prohibition has been introduced since 1953, in the Barapeta sub-division. In other States with some dry areas, attempts to restrict consumption of liquor are made by imposing restrictions on hours of sales, closure of shops on pay days to tea gardens, etc. In Punjab, prohibition has been introduced only in the district of Rohtak since 1948. The experiment has not been extended to other areas because smuggling takes place on a large scale and the State Government are of the view that prohibition cannot be successful within a small area unless the adjoining areas fall in line and the finances of Government are strong enough to bear the loss.

11. A policy of temperance is in force in Bihar, West Bengal
Temperance State : and Madhya Bharat.

Bihar.—In Bihar, prohibition is recognised to be the aim of State policy. But the fear is expressed that it may not be successful unless there is a vigorous temperance propaganda everywhere, and that the immediate enforcement of prohibition may only involve a loss in revenue without achieving its object. Temperance propaganda has been started in Ranchi as an experimental measure. The receipts realised are about Rs. 4½ crores but they show a declining tendency. This is attributed mainly to growing unemployment and a diminution in the purchasing power of the people. The duties on country spirit have been increased from time to time and are now reported to have reached their peak. Actually, the revenue went down on account of these high rates which led to an increase in the consumption of illicit liquor. To meet the situation the Government had to reduce the rates in certain areas.

West Bengal.—Bengal obtains a revenue of about Rs. 5 crores from excise duties. As compared to the receipts during the previous years, they show a declining tendency since 1952-53. This downward trend has been attributed to a fall in the purchasing power and to the growth of illicit distillation. The West Bengal

Government follows the policy of maximum revenue with minimum of consumption, and for that purpose, has taken the following steps:—

- (1) reduction in the number of excise licences for retail sale,
- (2) reduction of working hours of excise shops in industrial areas,
- (3) closure of liquor shops of Calcutta, and other industrial areas on Tuesdays,
- (4) upgrading of the rates of taxation on liquors and drugs, and
- (5) intensification of measures for the prevention of illicit distillation.

In pursuance of this policy, the rates of duty on country spirit were increased in 1953 from Rs. 46 in 1946 to Rs. 53. On India-made foreign liquor the rate has been raised from Rs. 30 to Rs. 70 in 1952.

Madhya Bharat.—In Madhya Bharat also, the State Government have adopted a policy of realising maximum of income from minimum of consumption and the following steps have been taken:—

- (i) stepping up prices;
- (ii) minimising the number of shops;
- (iii) prohibiting sale to persons below a certain age; and
- (iv) keeping shops closed on festival and certain other days throughout Madhya Bharat and also on pay days of labourers in the cities of Gwalior, Indore, Ujjain and Ratlam.

12. In the remaining States, there is neither a policy of partial prohibition or even of temperance. They rely to a large extent on excise revenues and seem opposed to any relinquishment of revenue from this source. The important among these are Hyderabad, PEPSU and Rajasthan and a brief review of the excise policy in each of these States is given below:—

Hyderabad.—The Hyderabad Government gets nearly Rs. 8·8 crores from the excise duties. Out of this, about Rs. 7·5 crores are realised from duties on country-fermented liquor. Excise revenue accounts for one-third of the total revenue of the State, and this is the largest source of income to the State. The Government have at present no policy under consideration which would involve relinquishment of this revenue.

PEPSU.—The PEPSU Government realise about Rs. 1·8 crores from excise duties. The State Government believe that they can ill-afford to forgo any part of this revenue, particularly, as by 1959, their revenue from the duty on opium will be completely lost. In regard to their excise administration and the rates of their duties, they follow the system prevailing in Punjab State.

Rajasthan.—The Rajasthan Government have no intention of introducing prohibition but pursue a policy of maximum revenue with

minimum consumption. The price of the country liquor has been increased in 1952 and 1953 and it is reported that there is no scope for any further rise as this increase has already affected revenue by increasing illicit distillation. The State realises about Rs. 2½ crores from its excise duties.

13. It is clear from the foregoing review that, at the moment, **Future excise policy** there is not in existence an all-India policy, or an all-India programme as such, for the achievement of total prohibition. At one end are Bombay, Madras, Andhra and Saurashtra, all of which have already adopted a policy of prohibition, and at the other end are PEPSU, Rajasthan and Hyderabad (for example) which consider themselves not in a position to effect any immediate curtailment of their excise revenue. In between, are a number of other States which have adopted policies which approximate in varying degrees to prohibition or temperance. We have had long discussions among ourselves on the shape that excise policy should take in the future, and have been unable to arrive at unanimity in our views.

14. Three of us are of the opinion that the constitutional directive in regard to prohibition should be implemented as early as practicable and that, for the purpose, an all-India time limit should be agreed upon within which all States—some, may be, earlier than others—will have completed the process of introduction of complete prohibition. They are aware, of course, that this would, to that extent, accelerate the loss of excise revenue already in progress. In their view, however, the enforcement of prohibition leads to a general improvement in the standard of living of the poorer sections of the community addicted to drink and adds to their purchasing power. This process may secure increased yields from other sources of taxation. But this apart, they believe that in relation to so basically important a measure of social welfare as prohibition—one, moreover, which has been specifically enjoined by the Constitution—revenue considerations must take a subordinate place.

15. According to them, while the aim of the official excise policy in India has, for the last 50 years, been one of reducing consumption by the levy of high duties, the State Governments, as pointed out by the Madhya Pradesh Prohibition Enquiry Committee, have usually been steadily increasing excise duties "in pursuit of revenue though professing to reduce consumption". In the Andhra Prohibition Enquiry Committee's Report, also, it has been observed that "the objective of minimum consumption was not helped but vitiated by the objective of maximum revenue in which revenue was sought to be obtained from the poorest classes for being spent on society in general". In the opinion of these three members, it is thus clear that the aim of reducing consumption has come to be ignored, and that though half a century has elapsed since the policy was first adumbrated, no tangible results in the direction of reducing consumption have flowed from the manner in which it has been in operation so far.

16. They are hence of the opinion that the policy of maximising revenue and minimising consumption is self-contradictory, that it has not worked in practice, and that, equally, any programme for the rationing of liquor—particularly of toddy and country spirit

which form the bulk of the consumption—with a view to the eventual abolition of its consumption, would be administratively unworkable. Appreciating the logic of this position, most of the States, in their view, have accepted prohibition as the goal of their excise policy. It is, however, mainly because of revenue considerations and partly because of administrative difficulties that they have been deterred from taking further steps in that direction. It is this twofold aspect of excise policy that has recently engaged the attention of the Government of India. The Planning Commission has already, we have been informed, undertaken a comprehensive enquiry with a view to seeing how the directive on this subject in the Constitution can be implemented effectively. The future course of action, in all States would, no doubt, be influenced largely by the findings of this inquiry, and the three members believe that it should provide the basis for a properly phased programme for the introduction of prohibition.

While refraining from suggesting a specific period for this purpose, they would, however, as already stated, like to see adopted an all-India target date by which all such States as have not yet done so will have introduced total prohibition in their respective areas; at the same time, they would emphasize very strongly the importance of suitable and adequate preparatory work, both administrative and by way of popular education, in order to ensure the success, in a real sense, of the policy of prohibition.

17. The other three members of the Commission draw attention to the fact that, while prohibition is undoubtedly among the more important directives of the Constitution, it is nevertheless only one of several such directives. For this reason, they hold that the pace of implementation of prohibition has to be considered, not in isolation, but as part of the wider question of assigning priorities and formulating legislative and administrative programmes—with due regard to the need to phase limited resources in men and money—for the different objectives embodied in the Constitution. They, moreover, emphasize that, with reference to individual States, the pace itself will have to be conditioned by the administrative resources and effort that can be made available for the effective enforcement of prohibition. In their view, it is such enforcement, that is to say, enforcement which successfully eliminates all consumption of intoxicants—and not merely the legal measure which prohibits the consumption of liquor or the administrative measure which withdraws the State's own supply of liquor—which constitutes the essence of the particular directive policy laid down by the Constitution. These members, equally with the other half of the Commission, hold that the fiscal aspect itself, in the light of the avowed objective of policy, must undoubtedly be treated as secondary; they only add the qualification that that does not mean that this aspect is devoid of a certain degree of significance which, in their present financial position, has to be taken into consideration by several States. They also point out that, for obvious reasons, the Commission has not felt called upon to examine, from the point of view of the administrative enforcement of prohibition, the varying abilities and potentialities of different States. Since administratively, no less than fiscally, prohibition falls within the sphere of the States, and since the administrative resources of a particular State as well as its revenue resilience are two of the

important considerations relevant to the assignment of priorities, it appears to the three members that the pace at which the objective underlying prohibition is to be approached by different States has to be left to be decided by individual States. In any case, the Commission itself is not in possession of material which would enable it to recommend as practicable the adoption, either generally or specifically, of a target date for the introduction of prohibition on a countrywide basis.

18. In view of this equal division of opinion among the members in regard to the future of excise policy in terms of the whole of India, the Commission is not in a position to make any recommendations on such policy.



सत्यमेव जयते

APPENDIX A

SALES TAX SYSTEMS IN DIFFERENT STATES

Part A States

ASSAM

Basis.—Assam introduced the sales tax in 1948. The tax is levied at a single point at the last stage of sale on the lines of the Bengal Sales Tax Act. The annual turnover limit for liability to tax and for registration is Rs. 7,500. Sales of goods between registered dealers for re-sale are not liable to tax. The tax is imposed on sales by registered dealers to un-registered dealers or to consumers.

Rates of tax.—The general rate of tax is six pies in the rupee. On certain luxury goods, the rate is the higher one of one anna per rupee.

Exemptions.—The list of exemptions is wide and covers food-grains and other important articles entering the cost of living of the poorer classes (cheap cloth, kerosene, *gur*, etc.). Certain articles are exempted with a view to helping agricultural and cottage industries (khadi, *muga* silk, bell-metal utensils, etc.). Certain school requisites (slates, exercise books, etc.) are also exempted. In addition to these, the Act provides for exemption of sales of goods for use in the manufacture or production of any goods, the sale of which is taxable under the Assam Act. Raw materials used in the manufacture of goods for sale outside the State are taxable.

Administration.—The administration of Sales Tax is entrusted to the Taxation Department which also administers the profession tax, the tax on sales of motor spirit, and the entertainment tax. The Commissioner of Taxes is the head of this Department and is assisted by two Assistant Commissioners and a number of assessing officers who are known as Superintendents of Taxes. One of the two Assistant Commissioners, hears appeals against the assessment made by the Superintendents of Taxes and, in addition, carries on inspecting duties. The other, who is a part-time officer, is engaged only on inspection and supervision duties. The Act provides for the constitution of a Board of Sales Tax and for references to the High Court on points of law.

Revenue.—The receipts from the sales tax are as follows:—

	(In lakhs of Rupees)
1950-51	55
1951-52	77
1952-53	83
1953-54 (Revised)	96
1954-55 (Budget)	72

The arrears of collection have been increasing from year to year. At the end of 1950-51, they were Rs. 26 lakhs while at the end of 1952-53 they increased to Rs. 120 lakhs.

History and Development of the tax.—The present general sales tax was introduced in 1948. Before that, in 1939, Assam had enacted

a measure for the levy of a selective sales tax on certain special items like motor vehicles, radios and wireless sets. The Act was, however, not enforced as there was at the time no similar legislation in the neighbouring areas and there was a possibility of large scale diversion of trade in these articles. The present Act of 1948 follows the Bengal Act with certain modifications. The minimum taxable quantum for liability to tax was Rs. 10,000 till 1950 when it was reduced to Rs. 7,500. While the general rate of tax at six pies in the rupee has remained unchanged, the special rate on luxury articles has been increased from nine pies to one anna per rupee since 1949. The large list of exemptions under the original Act has been reduced and amended to suit revenue needs. The Constitutional restrictions are reported to have resulted in a financial loss of Rs. 25 lakhs per year on the cessation of the tax on goods exported outside the State, and Rs. 7 lakhs per year on account of direct purchases from outside the State by consumers. The purchases of raw materials and other goods by manufacturers and processors which were not taxed previously if they were intended for producing goods for resale generally, are now exempted only if such finished goods are sold and taxable within the State and not otherwise. The State has also introduced a carrier tax on the transport of tea and jute with a view to making up the loss in revenue from the Constitutional restrictions on the levy of sales tax. The State has under consideration the imposition of a higher rate than one anna on certain luxury articles.

BIHAR

Basis.—Sales tax was introduced in Bihar in October 1944, on the lines of the single-point tax levied in Bengal. The tax is thus imposed when the goods are sold by a registered dealer to an unregistered dealer or consumer. Registration is compulsory when the annual turnover of a dealer exceeds Rs. 15,000. As in Bengal, the Act provides for voluntary registration for dealers below this limit. In 1951, Bihar imposed sales tax on non-resident dealers who delivered goods for consumption in Bihar.

Rates of tax.—The general rate of tax is six pies in the rupee. While certain luxury goods like motor vehicles, radios, etc. are taxed at nine pies in the rupee, certain essential articles like foodgrains, mustard oil, cotton cloth, fertilisers, etc. are taxed at three pies per rupee.

Exemptions.—The list of exemptions covers commodities like salt, milk, fish, agricultural implements, cotton and khadi. Certain conditional exemptions are given to local authorities (for drugs and medicines) and educational institutions (for meals served by their canteens). No exemption is provided for sales of raw materials to manufacturers and processors except in the case of sales of a few articles like cereals, pulses, mustard oil and handloom cloth, made for purposes of milling or processing.

Administration.—The administration is entrusted to the Commercial Taxes Department. The Commissioner of Commercial Taxes who is the head of the Department, is assisted by Deputy Commissioners, Assistant Commissioners and a number of assessing officers. The Assistant Commissioners and the Deputy Commissioners are the first appellate authorities while the Deputy Commissioner is the first revisional authority. The final revisional authority is the Board of

Revenue. References to the High Court are allowed only in respect of points of law arising out of the Board's decision.

Revenue.—The receipts from the sales tax are as follows:—

(In lakhs of Rupees)

1950-51	...	4,40
1951-52	...	4,22
1952-53	...	3,71
1953-54 (Revised)	...	3,72
1954-55 (Budget)	...	2,72

The large decrease in the current year is reported as being due to the full impact of the Constitutional restrictions. The position regarding assessment and collection of tax is reported to be satisfactory.

History and main features of the sales tax.—The original provisions of the Bihar Sales Tax Act have undergone many changes. When the tax was originally levied in 1944 the annual limit of turnover for tax liability was Rs. 5,000 and the general rate of tax, three pies in the rupee. In 1947, the turnover limit was increased to Rs. 10,000. In that year a tax was for the first time imposed on the sales of goods despatched outside Bihar. Early in 1948, tax at a special rate of six pies in the rupee was levied on certain luxury goods like motor vehicles, cheroots, ivory articles, furniture and tobacco. Later, when the general rate of tax was increased to six pies and the special rate on luxury articles to nine pies in the rupee, the rate of tax on certain articles like mustard oil, cotton cloth, coal and coke was continued at the old rate of three pies in the rupee. Similarly, the rate of tax on sales of goods despatched outside Bihar was kept at the old level of three pies per rupee. During this period, the scope of certain definitions in the Sales Tax Act was also enlarged. For instance, the definition of the term 'dealer' which formerly applied to persons doing regular trade, was enlarged to cover even casual dealers including agriculturists. Similarly, the definition of the term 'sale' was considerably widened and all sales of goods produced or manufactured in Bihar were made liable to the tax of that State. The list of exemptions was curtailed and foodgrains which had been formerly exempted, were subjected to a lower rate of tax of three pies in the rupee. The Constitutional restrictions on the levy of sales tax on exports are reported to have involved the State a loss of about Rs. 2.5 crores. To offset this loss, the State Government has, since 1951, made the non-resident dealers liable to tax for the goods delivered by them for consumption in Bihar, withdrawn the exemptions previously granted to raw materials and other goods used by the manufacturing and processing industries, and has also enlarged the list of luxury goods which are subject to a higher tax of nine pies in the rupee.

BOMBAY

Basis.—Sales tax was first introduced in Bombay on the 1st October 1946. At present the tax is levied on what is described as a 'two-point' basis. Under this system, the tax is imposed at the first stage of sale and also at the last stage of sale. Certain classes of

goods are, however, taxed only at the first stage and certain others only at the last stage of sale. A purchase tax is levied, under certain circumstances, on the purchases of goods from persons who are not registered dealers. The liability to tax and to register arises when the annual turnover exceeds the prescribed minimum limits. These are: Rs. 10,000 for importers and manufacturers and Rs. 25,000 for other dealers.

Rates of tax.—The rate of the first-point tax, termed the 'sales tax' as distinguished from the 'general sales tax', is generally three pies in the rupee; higher rates varying from six pies to fifteen pies being levied on a large number of luxury articles like cycles, cloth (other than coarse and medium cloth), jewellery, motor vehicles, binoculars, cigars, radios, cameras, etc. The last-point tax, known as the 'general sales tax' is generally levied at six pies in the rupee though for a few articles lower rates are prescribed, e.g., raw cotton (one per cent.), oilseeds, hides and skins, and yarn made of silk, wool or staple fibre (three pies per rupee), and bullion ($\frac{1}{4}$ per cent.). The purchase tax is recovered at rates equal to the rates of 'sales tax' on all purchases by a registered dealer from a person who is not registered, unless such goods are sold by the dealer after purchase. A purchase tax is also levied on an unregistered person at rates equal to the sales tax and the general sales tax on his purchases of motor vehicles and chassis of motor vehicles, from outside the State.

Exemptions.—Complete exemption is granted in respect of a number of articles. These include essential articles like foodgrains, flour, meat, *gur*, kerosene, and salt; articles of cottage industry like khadi, handloom cloth costing not more than two rupees per yard, and *ghani* oil when sold by owners of *ghanis*; school requisites like text-books, slate and slate pencils, exercise books, etc.; and other articles like cotton yarn, fertilisers, agricultural implements, and *charkha* and other implements. Partial exemptions, i.e., exemptions from 'sales tax' or the first-point tax are granted to many articles. For example, important raw materials like cotton, oilseeds, silk and woollen yarn and hides and skins; and such of the goods included in the Essential Goods Act as are not exempt, like coarse and medium cloth, iron and steel, dried fruits, petroleum products, etc. are exempted from the first-point tax and charged only to the last-point tax. Similarly, sales of goods to manufacturers and processors for the purpose of producing goods for resale are exempt from the last-point tax (except in the case of those raw materials on which a low rate of tax is levied only at the last point of sale).

Administration.—The Collector of Sales Tax is the Head of the Sales Tax Department and is assisted by a number of Assistant Collectors and Sales Tax Officers. The Sales Tax Officers are the assessing authorities and appeals against their orders lie to the Appellate Assistant Collector. The first revision lies to the Collector of Sales Tax while the final revision lies to the Sales Tax Tribunal which is a semi-judicial authority consisting of persons experienced in law, business and accountancy and not connected in any way with the Sales Tax Department. Provision has been made for reference to the High Court on any point of law arising out of the orders of the Tribunal.

The figures of receipts for the past four years and for the current year are as follows:—

	(In lakhs of Rupees)
1950-51	14,58
1951-52	11,88
1952-53	10,69
1953-54 (Revised)	15,14
1954-55 (Budget)	15,67

There were large arrears of assessments which have now been much reduced. The arrears of collections amounted to nearly Rs. 2 crores at the end of 1953-54 and efforts are being made to expedite their recovery.

History and main features of sales tax.—In 1946, when the sales tax was first introduced in the State, it was on a single-point basis on the lines of the Bengal system. The registration limit was Rs. 30,000 for all dealers. On the recommendation of a Committee, which examined the provisions of the Sales Tax Act, the registration limit was reduced to Rs. 10,000 in the case of importers and manufacturers. Voluntary registration was also provided for dealers wishing to register even though their turnover did not attract the tax liability. The rate of tax was six pies per rupee. The exemptions covered a wide range of articles and included necessities of life, products of cottage industries, school requisites and important raw materials. Sales of raw materials and other goods to registered manufacturers and processors for producing goods for resale and sales of goods despatched outside the State were also exempted. Later, with a view to getting additional revenue for developmental schemes, a higher rate of tax at one anna per rupee was levied on certain luxury articles like motor vehicles, radios, cameras, gramophones, etc. In 1949, the list of luxury articles was enlarged, and, for the first time, a tax was imposed on sales of goods despatched outside the State, at half the rates leviable on sales within the State. With the coming into operation of the Constitutional restrictions, the Bombay State is reported to have lost about Rs. four crores a year. To make up this loss and also to get additional revenue for the Five Year Plan, the State Government changed the basis of the sales tax to a multi-point one, in 1952; and the tax was levied at the rate of three pies in the rupee, the luxury articles being continued to be taxed at higher rates. The higher rates were levied at the first point of sale, in addition to the general multi-point tax. The list of exemptions was retained more or less as before, though the exemption of sales of raw materials and other goods for manufacturing and processing purposes was withdrawn. In the case of a few industries where the processes were too many and the incidence of multi-point tax proved burdensome, relief was given under the rules. Similarly, for important raw materials, the rate of tax was lowered and the tax was levied at only one point of sale. Such of the 'essential goods' as were not exempt or liable to tax at a lower rate were taxed at the rate of three pies per rupee at the first stage and three pies per rupee at the last stage, no tax being levied on the intermediary sales. This was done with a view to maintaining the incidence of tax on these articles at the same level at which they were taxed before the Central Act regarding essential goods was enacted. A purchase tax was for the first time introduced on the

purchases of specified goods by unregistered persons from outside the State. The goods specified for this purpose were motor vehicles and chassis of motor vehicles. The Bombay Sales Tax Act, 1952, was, however, challenged in the High Court which held it *ultra vires*. An Ordinance, setting right the technical defects and incorporating the provisions of the Act, was immediately issued in order to continue the levy of sales tax; and an appeal was also preferred to the Supreme Court against the decision of the High Court. The Supreme Court held the Act to be valid. But in the light of various considerations, including the representations of trade and industry regarding the hardships to them under the multi-point system, the State Government changed the basis of sales tax to the present two-point system. There is a Sales Tax Advisory Committee in this State. It consists of the representatives of different trade interests and advises the State Government on sales tax matters which are of general interest to the trade.

MADHYA PRADESH

Basis.—Madhya Pradesh introduced sales tax in 1947 on a single-point basis, the taxable point being determined by a system of registration as in other States. The minimum limit of annual turnover for tax liability and consequently registration, is Rs. 5,000 for importers, Rs. 10,000 for manufacturers and Rs. 25,000 for other dealers. Dealers who are not liable to tax but are anxious to get the benefits of registration, are given the facility of voluntary registration. Non-resident dealers selling goods for consumption in Madhya Pradesh are deemed to be importers and have to register themselves within two months of their turnover of such sales exceeding Rs. 5,000. A purchase tax is levied on purchasers (other than registered dealers) of motor vehicles and motor cycles from outside the State, with a view to check the avoidance of tax on high priced articles.

Rates of tax.—The general rate of tax is six pies in the rupee. On bullion, oilseeds and vegetable oils (other than hydrogenated oils) a lower tax at the rate of three pies per rupee is levied. On a large number of luxury goods like motor vehicles, cigars and cigarettes, jewellery, cosmetics, silk cloth, the tax is levied at the higher rate of one anna per rupee.

Exemptions.—Articles exempted from sales tax include essential articles like cereals and pulses, flour, *gur*, salt, milk, cheap *dhoties* and *sarees*, firewood, etc. A large variety of school requirements (e.g., text books, writing slates, etc.) has also been exempted. Sales of certain types, e.g., by canteen shops to defence personnel, sales of books to institutions like school or college libraries and sales of drugs to charitable hospitals and dispensaries are exempted from tax. Sales of goods between registered dealers for re-sale are exempt, but sales of raw materials and other goods for manufacture or processing of goods for resale are exempted only when the manufactured or processed goods are sold and taxable within the State. In other words, raw materials used in the manufacture of goods despatched outside the State are liable to tax. As a special concession, no tax is being levied, for the present, on cotton when sold to a registered manufacturer even if the products therefrom are despatched outside the State.

Administration.—The Sales Tax Department is under a Commissioner of Sales Tax. The Commissioner is assisted by a Deputy Commissioner, Assistant Commissioners and a number of Sales Tax Officers and Assistant Sales Tax Officers. The Assistant Sales Tax Officers, Sales Tax Officers and the Assistant Commissioners are the assessing authorities. The assessment jurisdiction of each differs according to the turnover limits of the dealers. Appeals against the assessment orders of the Assistant Sales Tax Officers and Sales Tax Officers lie to the Assistant Commissioner, while appeals against the assessment orders of the Assistant Commissioner lie to the Deputy Commissioner, who is also a revisional authority in respect of the appellate decisions of the Assistant Commissioner. The Commissioner is the next revisional authority while the Board of Revenue is the final revisional tribunal. References to the High Court can be made only on points of law arising out of the final revisional orders.

Revenue.—The receipts from the sales tax are as follows:—

	(In lakhs of Rupees)
1950-51	2,35
1951-52	2,32
1952-53	2,14
1953-54 (Revised)	1,95
1954-55 (Budget)	1,95

The arrears of collections have been increasing and by the end of 1952-53, amounted to Rs. 14 lakhs. Most of these are reported to be due from evacuees, who have left no properties.

History and important features of the tax.—When the tax was originally levied, the rate was six pies in the rupee. Later, on certain luxury articles a higher rate of twelve pies in the rupee was imposed. The Act has now been modified to permit a lower rate of tax being levied on certain articles like bullion, oilseeds and edible oils. The registration limit has similarly been changed, in the case of importers, from Rs. 2,500 to Rs. 5,000 a year. Before the Constitutional restrictions on the levy of sales tax on exports became operative, the Madhya Pradesh Government was able to recover some receipts from the tax on some of the exports. Under the Madhya Pradesh Sales Tax, the definition of 'sale' included sales of all goods which were in the State at the time the contract of sale was made, irrespective of the place where the contract of sale took place. The Constitutional restrictions have therefore involved the State in a loss of revenue estimated at Rs. 80 lakhs a year. To offset this loss to some extent, the Sales Tax Act has been recently modified to restrict the exemption of sales of raw materials and other goods to only those in respect of materials used in the production of goods for resale within the State itself.

MADRAS AND ANDHRA

Basis.—The sales tax was introduced in Madras in 1939. It is levied at every stage of sale and dealers having an annual turnover

exceeding Rs. 10,000 are all liable to tax. Every dealer having an annual turnover exceeding Rs. 7,500 is required to register. The registration is mainly for purposes of enabling the Government to have control and supervision over the business activities of the dealer.

Rates of tax.—The rate of tax is three pies in the rupee. Certain articles like motor vehicles, refrigerators, radios, clocks, electrical instruments, precious stones are made subject to an additional tax at rates ranging from three pies to six pies in the rupee, at such single-point of sale as may be prescribed. Recently, an additional tax at the rate of fifteen pies in the rupee has been levied on fine and superfine cloth. Usually this additional tax is collected at the first stage of sale. Food and drinks sold in hotels and restaurants having an annual turnover of more than Rs. 20,000 are taxed at four and a half pies in the rupee. Sales of bullion, cotton, cotton yarn (other than handspun yarn) and handloom cloth (woven wholly or partly from mill yarn) are taxed only at a single point at much lower rates; $\frac{1}{4}$ per cent. for bullion and $\frac{1}{2}$ per cent. for cotton, cotton yarn and handloom cloth. In the case of untanned hides and skins, though the tax is at the normal rate, it is levied at only one stage and on their purchase value.

In a few other cases like cotton bought by a spinning mill or an exporter, groundnut and cashew, the tax is levied on the purchase value. The Act, however, provides that in respect of the same transaction of sale, either the buyer or the seller, but not both, should be taxed.

Exemptions.—There are very few exemptions under the Madras Sales Tax Act. These are salt and handloom cloth woven from handspun yarn sold by dealers exclusively dealing in such cloth, and certain sales by specified classes of dealers like sales of *ghani* pressed oil by co-operative societies of *ghani* oil producers, sales of milk by co-operative milk supplying societies, etc. Sales by a person of agricultural or horticultural produce grown by himself or grown on any land in which he has interest as owner, mortgagee or tenant are exempt from tax. Persons who buy or sell on behalf of unknown principals are granted licences on payment of prescribed fees and are exempted from sales tax if their transactions fulfil the terms and conditions of the licence.

Administration.—The administration of the general sales tax is entrusted to the Commercial Taxes Department which also administers certain other taxes. The head of the Department is the Commissioner of Commercial Taxes who is also ex-officio member of the Board of Revenue. He is assisted by Deputy Commissioners, Commercial Tax Officers, Deputy Commercial Tax Officers. The Deputy Commissioner is the principal administrative officer of a division and is also the revisional authority. Likewise, the Commercial Tax Officer is the principal administrative officer for the district and exercises appellate powers over the assessment made by Deputy Commercial Tax Officers and Assistant Commercial Tax Officers who are the assessing authorities. The second appeal from the Commercial Tax Officer lies to the Sales Tax Appellate Tribunal. The Appellate Tribunal and the Board of Revenue also enjoy revisional powers.

Revenue.—The receipts from the sales tax in Madras and in Andhra are as follows:—

		(In lakhs of Rupees)
1950-51*	...	15,86
1951-52*	...	15,59
1952-53*	...	13,23
1953-54* (Budget)	...	14,00
1954-55 (Budget)		Madras 950, Andhra 315.

*For the composite Madras State.

The arrears of collection have risen in recent years. At the end of 1952-53, the arrears were Rs. 296 lakhs.

History and special features of the tax.—When the tax was first levied in 1939, the tax rate was one per cent. with lower rates on slab basis on turnovers upto Rs. 20,000. In 1940, the rate was reduced to $\frac{1}{4}$ per cent. but in 1943 it was again raised to one per cent. The present rate of three pies in the rupee came into effect from 1st January 1948 when the slabs rates were also abolished. The additional tax at higher rates on certain luxury goods were also introduced from that date. The rate of tax on bullion which was taxed at a single point was reduced from 1 per cent. to $\frac{1}{4}$ per cent. and untanned hides and skins were made liable to three pies per rupee at a single point on the purchase value as in the case of groundnut and cashew to avoid trouble to the small dealers. Later, as a revenue measure, certain exemptions (e.g., cotton) were withdrawn and lower rates were prescribed for them. Since 1951, the tax on handloom cloth has been reduced to one and a half pies in the rupee. To give further encouragement to the handloom industry, the State Government proposes to levy an additional tax of fifteen pies in the rupee on all mill cloth (except the coarse varieties). The Bill imposing this tax on fine and superfine cloth has already been adopted, while a similar Bill for imposing the tax on medium cloth has not yet been enacted.

ORISSA

Basis.—Orissa introduced the sales tax in 1947. It is levied at a single point at the last stage of sale. In other words, the tax is imposed only at the stage when a commodity is sold by a registered dealer to an unregistered dealer or a consumer. Sales of goods between registered dealers for resale are exempt. Goods sold to a manufacturer for use in the manufacturing of articles, or to a processor for the processing of goods for resale, are however taxable, as in Bihar. The turnover limit for tax liability and for registration is Rs. 10,000 a year.

Rates of tax.—The general rate of tax is nine pies in the rupee. On sales of matches and cotton yarn, a lower tax of three pies is charged, while sales of meat, fish, handloom cloth costing more than ten rupees per piece, are taxed at six pies per rupee. A large number of goods like motor vehicles, cycles, jewellery, ivory articles, photographic materials, carpets, fountain pens, etc. are taxed at the higher rate of one anna per rupee.

Exemptions.—The present list of exempted articles is smaller than the original one; and covers articles like foodgrains and other

essential articles, text books, bullion, khadi and hand-spinning implements, and certain edible oils.

Administration.—Sales tax is administered by the Commercial Taxes Department which also administers the Agricultural Income-tax. The Collector of Commercial Taxes who is the Head of the Department, is assisted by Assistant Collectors and a number of assessing officers who are called Commercial Tax Officers and Assistant Commercial Tax Officers. The Assistant Collectors of Commercial Taxes hear appeals against the orders of the assessing authorities. The first revision against the appellate orders lies to the Collector of Commercial Taxes, and the second revision to the Board of Revenue. Reference to the High Court is permissible only on points of law arising out of the revisional orders.

Revenue.—The receipts realised by the State of Orissa from its sales tax during the past four years and anticipated during the current year are as follows:—

	(In lakhs of Rupees)
1950-51	80
1951-52	1,11
1952-53	1,12
1953-54 (Revised)	1,10
1954-55 (Budget)	1,30

The arrears of sales tax rose from Rs. 11 lakhs in 1951 to Rs. 54 lakhs in 1953. The State Government have now enlarged its staff and re-organised the Department with a view to improving the collections.

History and special features of the tax.—Under the original Act, a dealer was liable to tax and to register, when his annual turnover exceeded Rs. 5,000 and the rate of tax was three pies in the rupee till 1949, though the Act permitted a levy upto six pies per rupee. Sales of goods between registered dealers for resale and of raw materials and other goods to manufacturers and processors for producing goods for resale were exempt, but sales of goods despatched outside Orissa were liable to tax. In 1949, the rate was increased to six pies in the rupee. Several changes were made in December, 1950. The minimum turnover limit for registration was increased to Rs. 10,000 and power was taken to increase the tax to a maximum of one anna per rupee. Since 1951, the general rate has been raised to nine pies and a higher tax of one anna has been levied on a large number of luxury articles, mainly with a view to make up the loss in receipts due to the Constitutional restrictions on the levy of exports. For the same reasons, the exemption of sales of raw materials and other goods to manufacturers and processors for producing goods for resale was withdrawn in 1951.

PUNJAB

Basis.—Sales tax in the Punjab is on a single point basis. No tax is levied on transactions between registered dealers, the tax being recovered only when a registered dealer sells goods to an unregistered dealer or a consumer. Sales of goods to registered dealers for resale and of raw materials and others good to registered manufacturers and processors for producing goods for resale are exempted. The minimum limits of annual turnover for tax liability and for

registration, are Rs. 10,000 for manufacturers and producers and Rs. 50,000 for all other dealers except importers who are all liable to tax and to registration irrespective of their annual turnover. A dealer who deals exclusively in exempted goods is not required to register himself. Voluntary registration is provided for dealers who desire to get themselves registered even though their turnover is below the minimum prescribed for tax liability.

Rates of tax.—The general rate of tax is six pies in the rupee. There are no special rates either for luxury goods or for essential goods. However, in order to discourage the practice of direct purchases by unregistered persons from outside the State of motor vehicles and tractors with a view to avoiding the sales tax, these commodities are taxed on the basis of lump amounts: Rs. 200 for motor vehicles and Rs. 100 for tractors.

Exemptions.—The exemption list covers a large variety of goods and includes most necessities of life, e.g., foodgrains, flour, milk, kerosene, matches, etc. Sales by agriculturists of their own produce, products of important village industries like khadi, *ghani* oil, hand-made utensils, country-made shoes, etc., school requisites like books, slates, slate pencils, etc. and other articles like fertilisers, bullion, cotton, etc. are also exempted. Further, the sales by local authorities, Indian Red Cross Society and Kashmir Emporium are exempt from tax.

Administration.—The Excise and Taxation Commissioner is the Head of the Department. He is assisted by Deputy Commissioners, Taxation Officers and Assistant Taxation Officers. The assessment work is done by Taxation Officers while the Deputy Commissioner is the appellate authority, for the Division concerned. The first revision against orders on appeal lies to the Commissioner. The second and final revision lies to the Financial Commissioner who corresponds to the Board of Revenue in some States. A reference to the High Court is allowed on only question of law arising out of the revisional orders.

Revenue.—The receipts are as follows:—

	(In lakhs of Rupees)
1950-51	1,78
1951-52	1,67
1952-53	1,72
1953-54 (Revised)	1,89
1954-55 (Budget)	2,15

The improvement in receipts is attributed to the improvement in the administrative machinery and the prevention of evasion.

History and main features of the tax.—When the sales tax was first imposed in the Punjab in 1941, it was on a multi-point basis and was modelled on the Madras system. The general rate of tax was only $\frac{1}{4}$ per cent. Commission agents and exporters were exempted on payment of licence fees. There were more exemptions than in Madras and the revenue realised was small. The multi-point system was however replaced by a single-point tax in 1949. The present system follows more or less the Bengal system of sales tax. When the new Act was introduced in 1949, the limits of

turnovers for registration were Rs. 5,000 for importers, Rs. 10,000 for manufacturers and producers and Rs. 20,000 for other dealers. Subsequently, the limit for other dealers was changed to Rs. 30,000 and in 1952, it was again changed to Rs. 50,000. The minimum limit of Rs. 5,000 for importers was withdrawn in 1952 in view of the large scale attempts by smaller dealers to import directly from outside the State and escape the tax. Since then, every importer irrespective of his turnover is made liable to tax. Similarly, lump amounts of tax (which work out to less than the general rate of tax of six pies per rupee) have been recently prescribed for motor vehicles and tractors.

UTTAR PRADESH

Basis.—Sales tax is being levied in Uttar Pradesh since 1948. The basis of the tax is multi-point as in Madras, though there are a large number of articles on the sales of which the tax is recovered at only one point. Except in the case of sales of country-made spirit, opium, *bhang* and *ganja* where the single-point tax is recovered at the retail stage, in the case of other articles, the tax is recovered at the first stage of sale (i.e., on the sales by importers and manufacturers). The commodities on which a single-point tax is levied include edible and non-edible oils, biris, cigars and cigarettes, cement, chemicals, mill cloth, cosmetics, sugar, motor vehicles, radios, etc. Further, certain fees on a prescribed scale (instead of the usual rates of tax) are levied on the sales of certain commodities like bones, bullion, cooked food, medicinal preparations, cotton, hides and skins and industrial lubricants. The minimum turnover limit for liability to tax and to registration, is Rs. 15,000.

Rates of tax.—The general rate of the multi-point tax is three pies in the rupee. The rates of tax on articles liable to a single-point tax vary from three pies to nine pies according to commodities. Except sales of country spirit, edible and non-edible oils, and tanned leather which are taxed at the rate of three pies per rupee, and sales of cigars, cigarettes and pipe tobacco on which the higher tax of nine pies is levied, all articles which are subject to a single-point levy are taxed at a rate of six pies in the rupee.

Exemptions.—Exemptions include essential articles (like food-grains, flour, meat and fish, ghee, *gur*, kerosene and salt); products of cottage industries (like handloom cloth, *ghani* oil, woollen carpets, blankets and rugs made on handlooms, etc.), school requisites (like books and mathematical instruments, exercise books); and other articles (like fertilisers, agricultural implements, etc.).

Administration.—The Sales Tax Department is under a Commissioner of Sales Tax who is assisted by a Deputy Commissioner, Assistant Commissioners and Sales Tax Officers, and Assistant Sales Tax Officers. The appellate and revisional authorities are known as Judges (Appeals) and Judge (Revisions), who are subject to the jurisdiction of the High Court and are completely independent of the Department. The Judge (Revisions) has his headquarters at Lucknow and has jurisdiction throughout the State. There are four Judges to hear appeals and their headquarters are located at the divisional headquarters. References to the High Court are provided for on question of law arising out of orders passed by the revisional authority.

Revenue.—The receipts realised by the Uttar Pradesh Government from its sales tax during the past four years and anticipated during the current year are as follows:—

	(In lakhs of Rupees)
1950-51	4.93
1951-52	4.81
1952-53	4.46
1953-54 (Revised)	5.05
1954-55 (Budget)	5.26

Collection of tax from certain classes of dealers was found difficult and arrears were increasing each year. Recently, powers have been taken to impose penalties for non-payment of tax on the due dates and it is expected that the collections will improve as a result.

History and main features of the tax.—Originally when the tax was imposed in 1948, it was recovered on a multi-point basis in respect of all sales. Later, it was considered that this method was unsuitable for certain types of commodities and a system of single-point levy of tax on these was introduced. On similar considerations, the sales of certain articles like bullion, cooked food, etc. were made liable to lump fees in lieu of tax. Transactions in the forward markets were also made liable to tax at low rates varying from three annas to twelve annas per unit of transaction. The Allahabad High Court declared this levy on forward transactions to be unconstitutional. The State Government have preferred an appeal against this decision to the Supreme Court.

WEST BENGAL

Basis.—Bengal was the first State in India to levy a single-point sales tax at the last stage of sales. The tax was imposed in 1941. The single point of sale for the purposes of the tax is determined by a system of registration. All dealers whose annual turnovers exceed the prescribed minimum limits are liable to tax and have to get themselves registered. The prescribed limits are Rs. 10,000 for importers and manufacturers and Rs. 50,000 for others. The tax is levied on sales by registered dealers to unregistered dealers or to consumers. To avoid the cumulative effect of taxation when an unregistered dealer intervenes in a chain of sales between registered dealers, a dealer has been given an option to register himself even though his turnover is less than Rs. 50,000. Recently, in order to check the large scale evasion of tax in the case of cigarettes, an amendment has been made to the original Act, to provide for the imposition of the tax on cigarettes at the first stage of sale, instead of at the last stage.

Rates of tax.—The rate of tax is nine pies in the rupee on the sales of all goods except cigarettes where the tax is recovered at the first stage of sale at the rate of three per cent. There are no special or higher rates of tax.

Exemptions.—The specific exemptions cover a wide range of commodities: important raw materials (cotton), essential articles (foodgrains, salt, kerosene, *gur*, etc.), articles of cottage industries (khadi), and other articles (text books, quinine, agricultural implements, etc.). In addition, the Act provides for exemption in respect

of sales of raw materials and other articles to registered manufacturers and processors where such materials etc. are intended for use in producing other goods for resale whether within the State or outside it.

Administration.—The Commercial Taxes Department, which also administers certain other taxes, is in charge of sales tax. At the head of the Department is the Commissioner of Commercial Taxes who is assisted by Assistant Commissioners and a number of Commercial Tax Officers. The Assistant Commissioner is an assessing as well as an appellate authority. He hears appeals against the orders of Commercial Tax Officers and also makes original assessments in respect of the big dealers whose cases are specially entrusted to him. The Commissioner hears appeals against the assessment orders of the Assistant Commissioner, while, in respect of orders on appeal passed by the Assistant Commissioner, he exercises revisional jurisdiction. The Board of Revenue is the final revisional authority. References to the High Court are allowed, however, on points of law only.

Revenue.—The receipts from the sales tax in Bengal are as follows:—

	(In lakhs of Rupees)
1950-51	5,19
1951-52	5,62
1952-53	5,24
1953-54 (Revised)	4,76
1954-55 (Budget)	4,57

The arrears of collections are on the increase. At the end of 1952-53, they amounted to Rs. 2.82 crores.

History and important features of the tax.—The main features of the sales tax in Bengal, including its single-point character, have remained unchanged. Among the features are the exemption from tax of all goods despatched to places outside the State and the exemption in favour of the raw materials and other goods used by the manufacturing industries. The Constitutional restrictions have not therefore affected the State of Bengal to the same extent as they have some other States like Assam, Bihar and Bombay. The rates of tax and the exemptions have however been changed according to revenue needs. Originally the rate was three pies in the rupee. It was increased to six pies in 1944 and to nine pies in 1945. There has been no change in the general rate since then. Recently, when the levy of sales tax on cigarettes was changed to the first stage of sale, the rate of tax thereon was changed to three per cent. The State Government are examining the possibility of extending this first-stage levy to certain other articles the tax on which is largely evaded. The Bengal Act does not provide for any special or higher taxation of luxury goods. The exemption list was slightly curtailed in 1944.

Part B States

HYDERABAD

Basis.—Hyderabad levies the sales tax on a multi-point basis. The minimum turnover limit for liability to the tax is fixed at Rs. 7,500 per year except in the case of the casual dealers who

irrespective of the limit of the turnover are liable to pay tax on all their sales. The word 'turnover' is defined as the aggregate of the turnover of goods bought or sold by a dealer. On certain goods such as groundnuts, *til*, *karadi*, castor seeds, biri leaves and tanning bark, a purchase tax is levied when the goods are first bought from the primary producer and the tax is recovered from the purchasing dealer. Registration is compulsory for dealers with turnovers exceeding Rs. 5,000; the tax liability itself, as stated above, begins at Rs. 7,500.

Rates of tax.—The general rate of tax is three pies in the rupee. On luxury goods like motor vehicles, radios, clocks, cigars and cigarettes, perfumery, etc., an additional tax at six pies per rupee is levied at a single point, usually, the first stage of sale. Special concessional rates are prescribed for certain sales, e.g., bullion ($\frac{1}{4}$ per cent. at one point), precious stones (two per cent. at one point), coarse and medium cloth (three pies at two points), and other kinds of cloth (nine pies at one point).

Exemptions.—These cover essential goods like foodgrains, salt, *gur* and kerosene; products of cottage industries like *ghani* oil and handloom cloth (where such cloth costs less than three rupees a year); school requisites like text books, exercise and drawing books; and other articles like fertilisers and agricultural implements. Commission agents doing business for known principals are exempted from tax on payment of licence fees. Agricultural produce grown by the owner of the land himself or by the tenant is also exempt.

Administration.—The Commissioner of Sales Tax is the head of the Sales Tax Department. He is assisted by the Deputy Commissioners and Sales Tax Officers. The Deputy Commissioner is the first appellate authority, against whose orders revision lies to the Commissioner. The orders passed by the Commissioner are final.

Revenue.—The receipts from the sales tax are as follows:—

	(In lakhs of Rupees)
1950-51	73
1951-52	... 1.06
1952-53	... 1.87
1953-54 (Revised)	... 2.00
1954-55 (Budget)	... 2.00

History and main features of the tax.—A sales tax was first levied in 1947-48 on certain selected luxury goods at the rate of six pies in the rupee. The minimum gross turnover limit for liability to tax was Rs. 10,000 a year, provided such gross turnover included a minimum turnover of Rs. 1,000 in taxable goods. This Act was replaced by the present General Sales Tax Act which came into effect from May 1950. The special features of the new Act are that casual dealers are liable to minimum tax on all their sales without any exemption of turnover limit and on most of the goods which are exported outside the State, a tax is levied at the point of purchase.

MADHYA BHARAT

Basis.—Madhya Bharat levies a single-point sales tax which is imposed at such point as may be notified by Government. Except in the case of sales of foreign liquor, the tax is imposed on sales by

the importer or the manufacturer. The minimum turnover for liability to tax and to registration is Rs. 5,000 for importers, manufacturers and processors and Rs. 12,000 for other dealers. Any dealer who comes from outside Madhya Bharat and carries on business during any *Mela* is also to pay the sales tax if his average sale during the period of the *Mela* exceeds Rs. 450 per month. The sales tax does not extend to all goods but to those specified in the schedules.

Rates of tax.—The general rate of tax varies from three pies to one anna in the rupee. On certain luxury goods a higher rate at two annas per rupee is levied. Vegetable oils, tobacco leaves and gold and silver ornaments are charged to three pies per rupee. Articles like chemicals, umbrellas, agricultural machinery, toys and sports goods, metals and metalware, soaps, cement and hosiery articles are charged to half anna in the rupee. Hydrogenated oils, petroleum products, table cutlery, fountain pens, dry fruits, motor vehicles, woollen goods, carpets and cigars, cigarettes and pipe tobacco are taxed at one anna, while foreign liquor and arms and ammunition are taxed at two annas in the rupee.

Exemptions.—The sales tax in Madhya Bharat is on selected goods which are notified by Government from time to time, but the Act contains a schedule of exempted goods on which no sales tax is to be levied. Those goods include foodgrains, fish, meat, salt, books, cotton, cotton yarn, *ghani* oil, hand-made paper, agricultural implements and fertilisers.

Administration.—The Commissioner of Sales Tax is assisted by Assistant Commissioners and Sales Tax Officers. Appeals against the assessment orders lie to the Judge, Sales Tax Appeals. Against the appellate orders, revision lies to the Commissioner of Sales Tax. Reference to the High Court is also provided on points of law arising from the revisional orders.

Revenue.—The receipts from sales tax in Madhya Bharat are as follows:—

	(In lakhs of Rupees)
1950-51	... 42
1951-52	... 91
1952-53	... 98
1953-54 (Revised)	... 1,29
1954-55 (Budget)	... 1,39

History and important features of the tax.—Madhya Bharat has introduced the sales tax to make up the loss in revenue from the gradual abolition of inter-State transit duties. At present, the inter-State transit duties continue to be levied on articles exported outside the State. When the sales tax was first levied in 1950, the rates of tax were more or less the same as the rates of inter-State transit duties on imports. The rates have now been lowered on certain articles of common use.

MYSORE

Basis.—Mysore levies the sales tax on a multi-point basis. The minimum turnover for liability to tax is Rs. 10,000 per year and compulsory registration is prescribed for all dealers whose turnover

exceeds Rs. 7,500 a year. The lower limit for registration is prescribed for keeping a watch on the business of the dealer so as to enable Government to assess him to tax when his turnover reaches the taxable limit. Generally the turnover of sales is taken for the purposes of registration but in the case of groundnuts, and untanned hides and skins the turnover is determined on the basis of the dealer's gross purchases.

Rates of tax.—The general rate of tax is three pies in the rupee. On specified luxury articles, there is an additional tax at rates varying from three pies to six pies in the rupee. This tax is imposed at the first stage of sale in addition to the multi-point tax. Special rates of taxes are prescribed for mill cloth (six pies per rupee), cigarettes (varying from 10 per cent. to 30 per cent.), cigars and cheroots (30 per cent.) and cigarette tobacco and pipe tobacco (30 per cent.), while on certain other goods, lower rates of taxes are charged, e.g., cotton yarn ($\frac{1}{2}$ per cent. at one point), bullion ($\frac{1}{4}$ per cent. at one point), hides and skins (three pies, at one point). All these rates are levied at only one point, generally at the first point of sale.

Exemptions.—The list of exemptions include only a few articles: all cereals and pulses, flour and *atta*, salt, kerosene, matches and *kambals* woven on handlooms. Sales of cotton, of handspun yarn, cloth woven on handlooms are exempted subject to certain conditions.

Administration.—The Commissioner of Excise is the *ex-officio* Commissioner of Sales Tax. He is assisted by Deputy Commissioners, Sales Tax Officers and the Assistant Sales Tax Officers. The Deputy Commissioner of Sales Tax is the appellate authority. The Commissioner of Sales Tax is the revising authority. Government have also got revisional powers. Reference to the High Court can be made on any point of law arising from the orders of the revisional authority.

Revenue.—The receipts realised from the sales tax by the Mysore Government during the past four years and anticipated during the current year are as follows:—

	(In lakhs of Rupees)
1950-51	... 1,29
1951-52	... 1,42
1952-53	... 1,22
1953-54 (Revised)	... 1,20
1954-55 (Budget)	... 1,30

The arrears at the end of 1952-53 were about Rs. 44 lakhs. Special revenue staff has been appointed for the recovery of these arrears and it is expected that there will be improvement in collection.

History and main features of the tax.—The tax was levied in 1948 on the model of the Madras system. Though the tax is generally levied on sales, in the case of a few articles like hides and skins, groundnuts, etc., the tax is levied on purchases. Commission agents doing business for known principals are exempted on payment of licence fees. The levy of single point tax on certain goods like cotton, bullion and handloom cloth is ensured by a system of licensing.

PEPSU

Basis.—Sales tax in PEPSU is a single-point levy. The tax is levied on the sale of goods by a registered dealer to an unregistered dealer or consumer. Sales between registered dealers and sales of raw materials and other articles intended for use in producing other goods for resale, are exempt. The minimum turnover for liability to tax and to registration is Rs. 5,000 in the case of importers, Rs. 10,000 in the case of manufacturers, and Rs. 20,000 in the case of Co-operative Societies and dealers other than importers and manufacturers. Voluntary registration is provided for dealers with turnover below the minimum limit, who desire to derive the benefits of registration.

Rate of tax.—The tax is levied at a uniform rate of six pies in the rupee.

Exemptions.—The exemption list contains a large number of articles. These include essential articles like foodgrains, flour, meat, milk, salt, fruits and vegetables; kerosene and matches; important raw materials, like cotton, raw hides and skins, and raw wool; school requisites like books, exercise books, slate and slate pencils, and crayon; products of cottage industries like *ghani* oil, khadi, hand-made utensils, and country-made shoes; and other articles like bullion and specie, agricultural implements and fertilisers. Agricultural or horticultural produce sold by the grower himself is also exempt.

Administration.—The Excise and Taxation Commissioner is the Administrative Head of the Department and he is assisted by a Deputy Commissioner and a number of Sales Tax Officers and Assistant Sales Tax Officers. The Deputy Commissioner is the appellate authority while the Commissioner the first revisional authority. A second and final revision lies to the Financial Commissioner. On any point of law arising from the revisional order, references lie to the High Court.

Revenue.—The following are the relevant figures for five years:—

	(In lakhs of Rupees)
1950-51	30
1951-52	46
1952-53	46
1953-54 (Revised)	48
1954-55 (Budget)	46

History and the main features of the tax.—Since its introduction in November 1949, the sales tax in PEPSU has not undergone any radical changes. The amendments made to the original Act have been generally procedural, the most important of which is the withdrawal from sales tax authorities of the powers of search of premises and seizure of accounts.

SAURASHTRA

Basis.—Sales tax is levied on a single-point basis on the sale of goods by a registered dealer to an unregistered dealer or a consumer. Transactions between registered dealers and sales of raw materials to registered manufacturers and processors for use in the production of other goods for resale are not liable to tax. The minimum limit

of annual turnover for liability to tax and to registration is Rs. 10,000 for importers and manufacturers and Rs. 30,000 for others. Voluntary registration is provided for dealers with turnovers below the taxable minimum.

Rates of tax.—The general rate of tax is six pies in the rupee. A concessional rate of $\frac{1}{4}$ per cent. is levied on sales of bullion and specie. On certain luxury articles like motor vehicles, steel almirahs and safes, refrigerators, typewriters and tabulating machines, clocks, binoculars, etc., a higher rate of one anna is imposed. On direct purchases of specified goods by unregistered persons, from places outside the State, a purchase tax at rates leviable on sales within the State is imposed. The goods so far specified for the purchase tax are motor vehicles and chassis of motor vehicles.

Exemptions.—The exemptions cover a wide range of articles and include essential articles like foodgrains, flour, ghee, salt, *gur*, kerosene, matches and betelnuts; important raw materials like cotton, raw jute, oilseeds, wool and hides and skins; cottage industry products like handloom cloth, and specified products of the cottage industries of Saurashtra; school requisites like books, exercise books and lead pencils; and other articles like cotton yarn, biri leaves, fertilisers and agricultural implements.

Administration.—The Sales Tax Department consists of the Commissioner of Sales Tax, the Deputy Commissioner and the Sales Tax Officers. The appellate powers are exercised by the Deputy Commissioner and the Commissioner. Revision applications against the orders of the Deputy Commissioner lie to the Commissioner and against the Commissioner's orders, to the Appellate Tribunal. References from the orders of the Tribunal lie to the High Court only on points of law. The State Government have constituted a Sales Tax Advisory Committee of the representatives of the trade to act as co-ordinating link between the trade and the administration.

Revenue.—The receipts from the sales tax are as follows:—

	(In lakhs of Rupees)	
1950-51	...	6
1951-52	...	16
1952-53	...	14
1953-54 (Revised)	...	70
1954-55 (Budget)	...	70

History and main features of the tax.—When Saurashtra originally introduced the sales tax in 1950, it was levied at a single-point only on twelve articles, such as motor cars, radios, watches, cement, etc. The rate of tax was six pies in the rupee, the minimum limit of turnover for liability to tax being Rs. 10,000. This selective sales tax has been replaced by a general sales tax since December 1952. The minimum limit of turnover for registration and liability to tax is Rs. 10,000 in the case of importers, manufacturers and processors and for other dealers, it has been now increased to Rs. 30,000 from the previous limit of Rs. 15,000. •

TRAVANCORE-COCHIN

Basis.—The sales tax in the State of Travancore-Cochin is levied on a multi-point basis and is more or less on the model of the sales tax in Madras. The minimum limit of turnover for liability to tax is Rs. 10,000 a year; for the purposes of registration the limit is Rs. 7,500. While generally the tax is levied on sales, on certain goods like coconut, copra, groundnuts, cashewnut, pepper and ginger, the tax is levied on the purchases made by a registered dealer. A few articles are taxed either at only one point or at two points of sale.

Rates of tax.—The general rate of tax is three pies in the rupee. On certain luxury goods like motor vehicles, refrigerators, radios, binoculars and clocks, an additional tax at rates varying from three pies to six pies in the rupee is levied at the first stage of sale. There is no separate enactment for the levy of sales tax on petrol which is included in the list of luxury articles and taxed at one anna and nine pies in the rupee in addition to the general levy. Similarly, tobacco and tobacco products are liable to an additional tax of one and a half annas per rupee. On certain articles concessional rates are charged while certain others are taxed only at one or two points. For instance, cotton and cotton yarn are taxed at the rate of one per cent. bullion and specie at the rate of $\frac{1}{4}$ per cent., and hides and skins (whether tanned or untanned) at three pies. All these are taxed at only one point. Coir and coir yarn are taxed at three pies per rupee at two points, while coir mats and mattings are taxed at three pies only at the last stage of sale.

Exemptions.—Foodgrains, vegetables, fresh milk, meat, cooked food, firewood, charcoal and kerosene are among the exempted articles. As in Madras, agricultural and horticultural produce sold by the grower is exempt.

Administration.—The Commissioner of Sales Tax is assisted by the Deputy Commissioner, Assistant Commissioners and Sales Tax Officers. Appeals lie to the Assistant Commissioner, while revision is the function of the Board of Revenue.

Revenue.—The relevant figures are as follows:—

	(In lakhs of Rupees)
1950-51	2,59
1951-52	2,44
1952-53	2,24
1953-54 (Revised)	2,30
1954-55 (Budget)	2,60

History and main features of the tax.—Before the State was reconstituted, Cochin and Travancore States had their own separate sales tax Acts. A consolidated Act was introduced on 30th May 1950. The scheme of the sales tax in this State is similar to that in the States of Madras, Mysore and Hyderabad.

Part C States

DELHI

Basis.—The State of Delhi has adopted the Bengal Sales Tax Act with modifications. The single-point tax is recovered by a

system of registration as in Bengal. The minimum limit of annual turnover for tax liability is Rs. 10,000 for importers and manufacturers and Rs. 30,000 for others. Voluntary registration is provided for dealers below the taxable minimum.

Rate of tax.—The rate of tax is six pies in the rupee, except in the case of cooked food, aerated and mineral waters and ice where the rate is $\frac{1}{2}$ per cent. There are no special or concessional rates.

Exemptions.—The list of exemptions includes several items: essential goods like foodgrains, meat, ghee, salt, kerosene and matches; important raw materials like cotton, oilseeds and hides and skins; school requisites like books, exercise and drawing books; and other articles like iron and steel, coal, cotton yarn, khadi, agricultural implements and bullion and specie.

Administration.—The Sales Tax Department consists of the Commissioner of Sales Tax, the Assistant Commissioner, the Sales Tax Officers, and the Assistant Sales Tax Officers. Appeals against assessment orders lie to the Assistant Commissioner, while revision applications are to be made to the Commissioner. A second and final revision lies to the Chief Commissioner.

Revenue.—The revenue from sales tax for the latest three years is as follows:—

	(In lakhs of Rupees)
1952-53	1,05
1953-54 (Revised)	1,10
1954-55 (Budget)	1,12

History and main features of the tax.—The sales tax was introduced in Delhi in November 1951. The Bengal Sales Tax Act was bodily adopted and made applicable to the State with minor changes. In 1953, the rate of tax on sale of cooked food, aerated and mineral waters and ice was reduced to $\frac{1}{2}$ per cent.

VINDHYA PRADESH

Basis.—In Vindhya Pradesh the sales tax levy follows the lines of the Madhya Pradesh Sales Tax Act. The tax was introduced in 1951. The levy is at a single point when the goods are sold by a registered dealer to an unregistered dealer or a consumer. The minimum limit of annual turnover for tax liability is Rs. 5,000 for importers and manufacturers and processors; for others it is such turnover as may be prescribed. Sales of goods between registered dealers are not liable to tax. There is no exemption of sales of raw materials and other articles to manufacturers and processors for use in the production of other goods for sale.

Rates of tax.—The general rate of tax is six pies in the rupee. A lower rate at three pies per rupee is charged for bullion and specie and vegetable oils. On certain luxury goods like motor vehicles, radios, sewing machines and metal furniture, a higher rate at twelve pies in the rupee is charged.

Exemptions.—Foodgrains, matches, kerosene, khadi, cottage industry products, cheap dhoties and sarees, quinine, fertilisers, etc., are included in the list of exemptions.

Administration.—The Commissioner of Sales Tax is assisted by an Assistant Commissioner and Sales Tax Officers. Appeals against the orders of the Sales Tax Officers lie to the Assistant Commissioner. The Commissioner of Sales Tax is the first revisional authority and the Board of Revenue is the second and final revisional authority.

Revenue.—The relevant receipts are as follows:—

	(In lakhs of Rupees)
1952-53	16
1953-54 (Revised)	18
1954-55 (Budget)	18

History and main features of the tax.—The Sales Tax Act is based on the Madhya Pradesh Sales Tax Act. The tax was introduced in 1951. No major changes have been made since then.

MANIPUR

Basis.—Manipur has adopted the Assam Sales Tax Act with certain amendments. The annual turnover limit for liability to tax and for registration is Rs. 5,000 for all classes of dealers. Sales of goods between registered dealers for re-sale and of raw materials and other articles intended for use in manufacturing or producing goods for resale or for use in the execution of any contract are exempt.

Rates of tax.—The general rate of tax is six pies in the rupee. Chillies and biris are taxed at the rate of nine pies in the rupee while sales of luxury goods like motor vehicles, wireless sets, cameras, refrigerators, cigarettes and cigars are taxed at the rate of one anna in the rupee.

Exemptions.—The list of exemptions includes essential articles like foodgrains, milk, *gur*, kerosene, matches and other articles like cotton, cotton yarn, fertilisers, hand-woven cloth.

Administration.—The Commissioner of Taxes is the administrative head of the Department, and is assisted by an Appellate Officer, Taxation Officers and Inspectors of Taxes. References on any question of law arising out of the orders of the appellate and revisional authorities lie to the Court of the Judicial Commissioner.

Revenue.—The receipts from the sales tax are as follows:—

	(In lakhs of Rupees)
1951-52	1.95
1952-53	2.27
1953-54 (Revised)	2.00
1954-55 (Budget)	2.00

History and other features of the tax.—Manipur has adopted the single-point system of sales tax and has applied the Assam Sales Tax Act with a few modifications. The turnover limit for purposes of registration and liability to tax is lower than in Assam. Secondly, sales of raw materials to registered dealers for the purpose of manufacturing or producing other goods for resale whether inside or outside the State are exempt from tax while in Assam such sales of raw materials are exempt only if the finished goods are taxable in the State. Lastly, Manipur is the only State where the Sales Tax Act provides for the amount of a proved to have been bad and written off, being allowed in computing taxable turnover.

STATISTICAL APPENDICES
STATEMENTS RELATING TO STATE TAXES

सत्यमेव जयते



सत्यमेव जयते

STATISTICAL APPENDIX No. 1

Progress of expenditure on Road Development Plans

(In lakhs of Rupees)

States	Progress of Development Expenditure on Roads						Five Year Plan 1952	Plan including adjustments and scarcity area programmes	Balance (i.e., Col. 8-6)
	1951-52 (A)	1952-53 (A)	1953-54 (R.E.)	1954-55 (B.E.)	Total 1951-55				
	2	3	4	5	6	7	8	9	
Central Government	382.8	422.6	560.0	758.0	2123.4	3124.0	4124.0	2000.0	
Part A States									
Andhra	82.6	53.0	44.6	30.3	210.5	*	248.4†	37.9	
Assam	2.4	15.9	56.0	116.0	190.3	213.0	265.0	74.7	
Bihar	202.1	202.4	178.4	340.4	923.3	800.0	1075.0	151.7	
Bombay	173.3	398.6	511.2	695.9‡	1779.0	1163.6	1163.6	—615.4	
Madhya Pradesh	45.2	44.6	44.6	38.5	172.9	200.0	200.0	27.1	

* Shown under the Plan of Composite Madras.

† Andhra State Plan as approved by the Planning Commission in February 1954.

‡ Under discussion with State Government.

STATISTICAL APPENDIX No. 1—contd.

Progress of expenditure on Road Development Plans—contd.

(In lakhs of Rupees)

States	Progress of Development Expenditures on Roads					Five Year Plan 1952	Plan including adjustments and scarcity area programmes	Balance (i.e., Col. 8—6)
	1951-52 (A)	1952-53 (A)	1953-54 (R.E.)	1954-55 (B.E.)	Total 1951-55			
I	2	3	4	5	6	7	8	9
<i>Part A States—contd.</i>								
Madras	92.8	172.9	53.4	54.0	273.1	500.0	357.6	84.5
Orissa	17.6	25.8	42.1	62.5	148.0	200.0	228.9	80.9
Punjab	19.7	18.5	18.7	109.0	165.9	75.1	310.6	144.7
U. P.	101.3	106.2	137.5	168.9	513.9	522.2	522.4	8.5
West Bengal	212.6	251.4	266.6	280.7	1011.3	1385.1	1401.6	390.3
TOTAL PART A STATES	949.6	1189.3	1353.1	1896.2	5388.2	5059.0	5773.1	384.9
<i>Part B States</i>								
Hyderabad	28.7	17.4	37.1	51.6	134.8	128.6	147.6	112.8
Madhya Bharat	15.2	31.2	43.2	59.3	148.9	189.0	286.3	137.4

Mysore	.	.	.	.	.	.	.	38.6	63.0	102.7	113.2	317.5	320.1	334.1	16.6
PEPSU	.	.	.	.	.	.	.	20.1	24.1	33.0	18.6	95.8	95.1	179.4	83.6
Rajasthan	.	.	.	.	.	.	.	15.5	38.4	108.7	138.3	300.9	400.0	500.0	199.1
Saurashtra	.	.	.	.	.	.	.	24.5	69.0	89.1	137.4	320.0	300.0	300.0	—20.0
Travancore-Cochin	.	.	.	.	.	.	.	24.5	26.4	32.3	75.1	158.3	150.0	175.0	16.7
Jammu & Kashmir	.	.	.	.	.	.	.	10.9	14.2	44.4	65.6	135.1	494.4	537.3	402.2
TOTAL PART B STATES															
	.	.	.	.	.	.	.	178.0	283.7	490.5	659.1	1611.3	2077.2	2559.7	948.4
Part C States															
Ajmer	.	.	.	.	.	.	.	0.6	1.2	3.7	7.4	12.9	15.9	15.9	3.0
Bhopal	.	.	.	.	.	.	.	4.3	5.0	13.2	2.2	24.7	40.0	40.0	15.3
Bilaspur	.	.	.	.	.	.	.	2.0	2.1	8.7	5.0	17.8	23.0	23.0	5.2
Coorg	.	.	.	.	.	.	.	2.3	0.9	6.6	9.0	18.8	20.0	25.0	6.2
Delhi	.	.	.	.	.	.	.	0.5	1.8	7.4	7.9	17.6	25.0	25.0	7.4
Himachal Pradesh	.	.	.	.	.	.	.	7.6	24.3	25.3	46.7	103.9	110.0	150.0	46.1
Kutch	.	.	.	.	.	.	.	4.8	15.7	6.3	16.5	43.3	58.3	58.3	15.0
Manipur	.	.	.	.	.	.	.	..	11.6	10.7	15.5	37.8	81.3	81.3	43.5
Tripura	.	.	.	.	.	.	.	3.7	9.9	27.8	40.2	81.6	128.0	128.0	46.4
Vindhya Pradesh	.	.	.	.	.	.	.	12.2	10.2	14.0	39.8	76.2	125.9	125.9	49.7
TOTAL PART C STATES															
	.	.	.	.	.	.	.	38.0	82.7	123.7	190.2	434.6	627.4	672.4	237.8
TOTAL FOR ALL STATES															
	.	.	.	.	.	.	.	1165.6	1555.7	1967.3	2745.5	7434.1	7763.6	9005.2	1571.1
GRAND TOTAL (CENTRAL GOVERNMENT AND STATES)															
	.	.	.	.	.	.	.	1548.4	1978.3	2527.3	3503.5	9557.5	10887.6	13129.2	3571.7

STATISTICAL

*Statement showing the rates of stamp duties leviable in the various
whether movable or*

Value of consideration	General rates under the Indian Stamp Act	Special	
		Bengal, Bihar and Orissa	Madras
I	2	3	4
1. does not exceed Rs. 50	0 8 0	0 12 0	1 8 0
2. exceeds Rs. 50 but not Rs. 100	1 0 0	1 8 0	3 0 0
3. „ Rs. 100 „ „ Rs. 200	2 0 0	3 0 0	6 0 0
4. „ Rs. 200 „ „ Rs. 300	3 0 0	4 8 0	9 0 0
5. „ Rs. 300 „ „ Rs. 400	4 0 0	6 0 0	12 0 0
6. „ Rs. 400 „ „ Rs. 500	5 0 0	7 8 0	15 0 0
7. „ Rs. 500 „ „ Rs. 600	6 0 0	9 0 0	18 0 0
8. „ Rs. 600 „ „ Rs. 700	7 0 0	10 8 0	21 0 0
9. „ Rs. 700 „ „ Rs. 800	8 0 0	12 0 0	24 0 0
10. „ Rs. 800 „ „ Rs. 900	9 0 0	13 8 0	27 0 0
11. „ Rs. 900 „ „ Rs. 1,000	10 0 0	15 0 0	30 0 0
12. For every Rs. 500 or part thereof in excess of Rs. 1,000	5 0 0	7 8 0	15 0 0

NOTE.—These rates are exclusive of the surcharges shown below :—

50 per cent. in Bombay State.

37½ per cent. in Bihar.

25 per cent. in Orissa and U.P.

APPENDIX 2

States on 'Conveyance' and allied instruments by which property immovable are transferred

rates in

Punjab	U. P.	M. P.	Bombay Immovable Property			
			In Greater Bombay	In noti- fied cities	Other urban areas	Other areas
5	6	7	8	9	10	11
1 0 0	0 10 0	0 10 0	} Same as the general rate in Col. 1.			
1 14 0	1 4 0	1 5 0				
3 12 0	2 8 0	2 5 0				
5 10 0	4 1 0	4 10 0	10 0 0	7 8 0	4 8 0	4 8 0
7 8 0	5 10 0	7 5 0	14 0 0	10 8 0	6 0 0	6 0 0
9 6 0	7 3 0	10 0 0	18 0 0	13 8 0	7 8 0	7 8 0
11 4 0	11 4 0	12 0 0	22 0 0	16 8 0	9 0 0	9 0 0
13 2 0	13 12 0	14 0 0	26 0 0	19 8 0	10 8 0	10 8 0
15 0 0	15 0 0	16 0 0	30 0 0	22 8 0	12 0 0	12 0 0
16 14 0	16 14 0	18 0 0	34 0 0	25 8 0	13 8 0	13 8 0
18 12 0	18 12 0	20 0 0	38 0 0	28 8 0	15 0 0	15 0 0
9 6 0	9 6 0	10 0 0	20 0 0	15 0 0	10 0 0	7 8 0

STATISTICAL APPENDIX 4

*Rates of entertainment tax in force in different States**Part A States*

1. ASSAM :

No tax on payments less than As. 4

Where the payment excluding the tax is—

	Rs.	A.	P.
Less than As. 8	0	0	6
As. 8 or more but less than Re. 1	0	1	0
Re. 1 Do. Rs. 2	0	4	0
Rs. 2	0	6	0
More than Rs. 2 for every rupee or part in excess of the first two rupees in addition to the payment on the first two rupees	0	3	0

2. BIHAR :

25 per cent. of the cost of admission plus a surcharge of 25 per cent. (50 per cent. in all).

3. BOMBAY :

Where the payment excluding the amount of the duty—

does not exceed 4 annas	0	1	0
exceeds As. 4 but does not exceed As. 8	0	2	6
exceeds As. 8 Do. Re. 1	0	5	0
exceeds Re. 1 Do. Rs. 2	0	10	0
exceeds Rs. 2 Do. Rs. 4	1	4	0
exceeds Rs. 4 Do. Rs. 5	2	0	0
exceeds Rs. 5 Do. Rs. 10	2	8	0

exceeds Rs. 10 for every Rs. 5 or part thereof in excess of the first ten rupees in addition to the payment on the first ten rupees

2 8 0

4. MADHYA PRADESH :

When the amount of payment for admission—exceeds two annas but is less than four annas

0 1 0

is as. 4 or more but does not exceed Rs. 1 8 0

50 per cent. of the amount charged by way of payment for admission.

exceeds Rs. 1-8-0 but does not exceed Rs. 2-0-0	0	14	0
exceeds Rs. 2-0-0 Do. Rs. 2-8-0	1	2	0
exceeds Rs. 2-8-0 Do. Rs. 3-0-0	1	6	0
exceeds Rs. 3-0-0 Do. Rs. 3-8-0	1	10	0
exceeds Rs. 3-8-0 Do. Rs. 4-0-0	1	14	0
exceeds Rs. 4-0-0 Do. Rs. 4-8-0	2	2	0
exceeds Rs. 4-8-0 Do. Rs. 5-0-0	2	6	0
exceeds Rs. 5 for every one rupee or part thereof in excess of the first Rs. 5 in addition to the payment on the first five rupees	0	6	0

STATISTICAL APPENDIX 4—contd.

Rates of entertainment tax in force in different States—contd.

5. MADRAS :

Where the payment for admission exclusive of the amount of tax—

is not more than As. 5	1/5th of such payment
is more than As. 5 but is not more than Rs. 1-8-0	1/4th of such payment
is more than Rs. 1-8-0	1/3rd of such payment

For dramatic and music performances, Indian dances, etc. where the payment for admission inclusive of the amount of tax—

(i) is not more than Rs. 3	One-eighth of such payment
(ii) is more than Rs. 3 but is not more than Rs. 5	One-fifth of such payment
(iii) is more than Rs. 5	One-third of such payment

6. ORISSA :

When payment for admission is

(i) Re. 1 or less	25 per cent. of such payment
(ii) more than Re. 1 but not more than Rs. 3	33 1/3 per cent. of such payment
(iii) more than Rs. 3	50 per cent. of such payment
Dramas and music performances	at a flat rate of 25 per cent. of the amount of admission.

7. EAST PUNJAB :

				Rs.	A.	P.
Below annas four				0	1	0
Exceeding 4 annas but not exceeding 8 annas				0	2	0
Do. 8	Do.	Re. 1		0	4	0
Do. Re. 1	Do.	Rs. 2		0	8	0
Do. Rs. 2	Do.	Rs. 3		0	12	0
Do. Rs. 3	Do.	Rs. 4		1	0	0
Do. Rs. 4	Do.	Rs. 5		1	4	0
Do. Rs. 5	Do.	Rs. 7-8-0		1	14	0
Do. Rs. 7-8-0	Do.	Rs. 10-0-0		2	8	0

For every five rupees or part thereof in excess of the first ten rupees

1 8 0

8. UTTAR PRADESH :

Where the payment excluding the amount of the tax—

exceeds As. 2 but does not exceed As. 3			0	1	0
exceeds As. 3	Do.	As. 4	0	1	6
exceeds As. 4	Do.	As. 8	0	2	6
exceeds As. 8	Do.	Re. 1	0	5	0
exceeds Re. 1	Do.	Rs. 2	0	10	0
exceeds Rs. 2	Do.	Rs. 3	1	0	0
exceeds Rs. 3	Do.	Rs. 4	1	8	0
exceeds Rs. 4	Do.	Rs. 5	2	4	0
exceeds Rs. 5	Do.	Rs. 6-8-0	3	0	0
exceeds Rs. 6-8-0	Do.	Rs. 10-0-0	4	8	0

exceeds ten rupees, for every five rupees or part thereof in excess of the first ten rupees

3 0 0

in addition to the payment on the first ten rupees.

STATISTICAL APPENDIX 4—contd.

Rates of entertainment tax in force in different States—contd.

9. BENGAL :

Where the payment excluding the amount of the tax—

is more than three annas but not more than one
rupee 25 per cent. of such payment
rounded off, if it is not a multi-
ple of half anna, to the
next higher multiple of half
anna.is more than one Rupee but not more than three
rupees 50 per cent. of such payment
rounded off, if it is not multi-
ple of an anna to the next
higher multiple of an anna.

is more than three rupees

75 per cent. of such payment
rounded off, if it is not a multi-
ple of an anna, to the next
higher multiple of an anna.

Part B States

10. HYDERABAD :

Upto 0-4-0

Rs. A. P.

0 0 6

" 0-8-0

0 1 0

" 1-0-0

0 2 0

" 2-0-0

0 4 0

" 3-0-0

0 6 0

" 4-0-0

0 8 0

" 5-0-0

0 12 0

" 7-8-0

1 0 0

" 10-0-0

1 8 0

exceeds Rs. 10 for every Rs. 5 or part thereof in
excess of the first ten rupees in addition to Rs.
1/8. for the first ten rupees

1 8 0

11. PEPSU :

(i) not exceeding annas 4

0 1 0

(ii) exceeding annas 4 but not exceeding annas 8

0 2 0

(iii) exceeding rupee 1 Do. Rs. 1-8-0

0 6 0

(iv) exceeding Rs. 1-8-0 Do. Rs. 2-0-0

0 8 0

(v) for subsequent every one rupee

0 4 0

12. SAURASHTRA :

Rates are 2/3 of the rates prevailing in Bombay.

Part C States

13. AJMER-MERWARA :

0 2 0

No tax

0 3 0

0 0 6

0 4 0 to 0 8 0

0 1 0

0 8 0 to 1 0 0

0 2 0

1 0 0 to 2 0 0

0 4 0

2 0 0 to 3 0 0

0 6 0

3 0 0 to 4 0 0

0 8 0

4 0 0 to 5 0 0

0 12 0

5 0 0 to 7 8 0

1 0 0

7 8 0 to 10 0 0

1 8 0

for every five rupees or part thereof in excess of
the first ten rupees in addition to the payment
of first ten rupees

1 0 0

14. BHOPAL :

The rates vary according to the theatres (4 in all) and to the nature of seats (e.g. upper box, lower box, balcony, special class, etc.) and range from 1 anna to 6 annas. For ladies, concessional rates are charged on some of the lower class seats.

STATISTICAL APPENDIX 4—concl'd.

*Rates of entertainment tax in force in different States—concl'd.***15. DELHI :**

Where the payment excluding the amount of the tax—

			Rs.	A.	P.
exceeds As. 2 but does not exceed As. 3	.	.	0	0	9
exceeds As. 3	Do.	As. 4	0	1	0
exceeds As. 4	Do.	As. 8	0	2	0
exceeds As. 8	Do.	Re. 1	0	4	0
exceeds Re. 1	Do.	Rs. 2	0	8	0
exceeds Rs. 2	Do.	Rs. 3	0	12	0
exceeds Rs. 3	Do.	Rs. 4	1	0	0
exceeds Rs. 4	Do.	Rs. 5	1	4	0
exceeds Rs. 5	Do.	Rs. 6	1	10	0
exceeds Rs. 6	Do.	Rs. 10	2	8	0

For every five rupees or part thereof in excess of the first ten rupees, in addition to the payment on the first ten rupees

1 4 0

16. HIMACHAL PRADESH :

Where payment for admission does not exceed four annas

exceeds as. 4 but does not exceed As. 8	.	.	0	1	0
exceeds as. 8	Do.	Re. 1	0	2	0
exceeds Rs. 2	Do.	Rs. 3	0	4	0
exceeds Rs. 3	Do.	Rs. 4	0	12	0
exceeds Rs. 4	Do.	Rs. 5	1	0	0
exceeds Rs. 5	Do.	Rs. 7-8-0	1	4	0
exceeds Rs. 7-8-0	Do.	Rs. 10	1	14	0
			2	8	0

For every Rs. 5 or part thereof in excess of the first ten rupees in addition to the payment on the first ten rupees

1 8 0

STATISTICAL APPENDIX 5

Entertainment Tax (including Show Tax) (Cash and Stamps)

(In lakhs of Rupees)

	1950-51	1951-52	1952-53	1953-54	1954-55
<i>Part A States</i>					
Assam	11	14	14	15	15
Bihar	36	36	35	32	32
Bombay	1,73	1,84	1,67	1,63	1,65
Madhya Pradesh	29	35	32	30	30
Madras	1,24	1,32	1,19	74	75
Andhra	..	..	..	16	32
Orissa	6	6	6	6	6
Punjab	17	20	19	19	19
Uttar Pradesh	79	85	78	71	71
West Bengal	1,05	1,10	1,04	95	95
TOTAL, PART A STATES	5,80	6,22	5,74	5,21	5,40
<i>Part B States</i>					
Hyderabad (show tax)	..	..	2	3	3
Mysore	6	11	10	13	15
Madhya Bharat	..	..	..	..	..
PEPSU	4	5	5	5	4
Rajasthan	1	..	..	..	..
Saurashtra	6	6	5	6	6
Travancore-Cochin	..	..	..	..	..
TOTAL, PART B STATES	17	22	22	27	28
<i>Part C States</i>					
Delhi	..	..	..	29.5	31.0
Himachal Pradesh	..	..	..	0.4	0.4
Vindhya Pradesh	..	..	..	1.0	1.5
Bhopal	..	..	..	1.3	1.3
Coorg	..	..	..	0.3	0.8
TOTAL, PART C STATES	..	..	..	32.5	35.0
GRAND TOTAL	..	..	..	580.5	603.0

STATISTICAL APPENDIX 6 Rates of Electricity Duties and Exemptions

Bombay		Madras		West Bengal	
1	2	3	4	5	6
As per unit In Bombay city		At other places		As per unit	
(i) For Cinema Houses	. . . 0 0 9	Such rates as may be notified.		(i) Where net charge does not exceed 0-3-0 per unit :	
(ii) For other purposes :				Less than 15 units . . . Nil.	
(a) Less than 12 units per month	. . . 0 1 0	These vary from 0-0-6 to 0-1-3.		Between 15 and 50 units . . . 0 0 6	
(b) more than 12 units per month	. . . 0 1 3			Exceeding 50 units . . . 0 1 0	
				(ii) When the net charge exceeds 0-3-0 per unit . . . 0 0 6	
(iii) For Industrial purposes :					
(a) For Electrolytic process or Electric Furnace.	. . . 0 0 3	for every 5 units			
(b) For other purposes	. . . 0 0 3	for every 2 units			
Exemptions		Exemptions		Exemptions	
Save in respect of premises used for residential purposes :—					
(i) Local authority.		(i) Energy consumed by a licensee for purposes connected with construction, maintenance and operation of this Electrical undertaking.		(i) Local authority.	
(ii) Tramway company.		(ii) If in any month total sale of energy effected at whatever price together with energy consumed by the		(ii) Tramway company.	
(iii) Hospital or Dispensary not maintained for private gains.				(iii) Mines or Industrial undertakings.	
(iv) Consumption below 12 units in certain mofussil towns.				(iv) Places of Public worship, public burial, or other premises as may be declared by the Government to be used exclusively for purposes of public charity.	

(v) Any consumer not using more than 15 units in any one month.

licensee for purposes other than those in (i) above did not exceed 16,666 units; [this exemption is not valid if the total sale of Electricity (with the exception of (i) above) at the end of the financial year exceeds 2,00,000 units].

Bihar	Travancore-Cochin	Madhya Pradesh	Uttar Pradesh
4	5	6	7
½ anna per unit <i>Exemptions</i> (i) Mines (as defined in the Indian Mines Act, 1923) or Industrial undertakings. (ii) Construction, maintenance and operation of Electrical Undertakings. (iii) Public Institutions and places as may be specified by the Government.	The rate is 0-0-9 per unit of energy sold at a price of more than 0-2-0 per unit. <i>Exemptions</i> (i) If in any month, total sale of energy effected at a price of more than 2 annas per unit did not exceed 8,313 units [The exemption is not valid if at the end of the Financial year the total sale of energy (at more than 2 as. per unit) exceeds 1,00,000 units].	1 anna per unit. <i>Exemptions</i> (i) Local authority. (ii) Pilot lamps, signal circuits using lamps for the purpose. (iii) Industrial undertakings. (iv) Any other purpose as declared by the State Government.	Duty is computed at the rate of 25 per cent. of the rate charged for supply of energy. <i>Exemptions</i> (i) Mines. (ii) Cultivator in Agricultural operations subject to certain conditions. (iii) Cost of energy exceeding 9 annas per unit.

STATISTICAL APPENDIX 7
Statement showing power costs in some Industries as given in the Fifth Census of Manufacturers 1950

Industry	States	Total manufacturing cost	Total cost on fuel	Fuel as percentage of total manufacturing cost	Cost of Electricity	Electricity as percentage of total manufacturing cost
(Costs in lakhs of Rupees)						
Chemical Industry	Bombay	11.25	48	4.3	5	0.46
	Madras	2.17	7	3.2	2	1.0
	Uttar Pradesh	2.31	5	2.1	2	0.84
Textiles	Bombay	2,03.18	6.65	3.2	2.15	1.1
	Madras	48.92	1.24	2.5	50	1.1
	Uttar Pradesh	16.17	58	3.5	36	2.2
Engineering Industries (General & Electrical)	Bombay	20.96	40	1.9	11	0.5
	Madras	3.09	11	3.5	3	0.9
	Uttar Pradesh	1.30	6	4.3	2	1.2

**LAND REVENUE, AGRICULTURAL INCOME-TAX,
IRRIGATION CHARGES AND BETTERMENT LEVY**

सत्यमेव जयते



सत्यमेव जयते

CHAPTER I

THE BACKGROUND OF LAND REVENUE

(1) The Main Systems

Land revenue in early periods Almost all over the world, the State arranges to secure for itself by some form of a levy a portion of the income derived by those who utilise the land for various purposes. In India, from time immemorial, is has been customary for the rulers to collect land revenue from those who cultivate land, although it is difficult to say when precisely this levy originated and in what form it was charged. Since very early times, kings and rajas (and even the lesser chiefs) were accustomed to take from the owners of land in their dominions, a certain share of the produce grown by them, unless it was remitted as a special favour or in lieu of services rendered. According to Manu, this share was generally one-sixth of the gross produce, i.e., of the grain-heap made up at the threshing floor. This share could, however, be raised to one-fourth in times of war or during other emergencies. The share of produce due to the ruler was assessed upon a village as a whole and its payment was the joint responsibility of the whole village community. The village headman who represented the community allocated this share among the individual owners with due regard to the condition and quality of land cultivated by them. This simple method of assessment admirably suited the conditions prevailing in those days. Being a share of gross produce, its determination did not require any complicated calculations of the relative fertility of the lands, cost of production or the owners' profits. Whatever was produced was heaped on the floor and the division was made in the presence of the king's officers. In a bad year when the crops failed and there was no produce, relief was automatic.

Later developments 2. Difficulties, however, came to be experienced with the growth of population and the extension of cultivation. The division of the share of the produce could not be properly supervised and the peasantry often practised concealment. The king's officers also began to cheat both the peasantry and their master. This led to a change in the method of assessment and the king's share of the produce was determined in accordance with the estimates framed of the standing crops. Later, even this method was found unsuitable, and the king's share came to be assessed in monetary terms. The system of payment of land revenue in cash thus came into vogue. Attempts at reforming the system were first made by Sher Shah, but a major change was brought about only during the reign of Akbar, who, with the assistance of his minister, Raja Todar Mal, laid the foundation of a system which furnished the basis for land revenue policy for generations thereafter. Under this system, all the land was measured by a uniform standard and the average produce of a *bigha* of land was ascertained. Land was classified into four categories according to soil and fertility and the gross produce was calculated on the basis of the produce grown during the preceding ten years. The average gross produce thus

obtained for any particular piece of land was then commuted into cash on the basis of prices prevailing in the previous nineteen years, and one-third of this was fixed as the king's share. The assessment so made was intended to be continued unchanged for a period of ten years, but actually continued indefinitely, as there were no regular revisions.

3. With the expansion of the Mogul Empire, the administrative machinery became less efficient. The provincial officers became powerful and exploited the landholders. Some of these imposed additional levies on the land in the form of *abwabs* or cesses. With the decline of the Empire and during the anarchy that followed, these officers openly flouted the central authority and assumed full control over the territory which they administered. Similarly, the middlemen who were employed by Government to collect land revenue became stronger and exploited the peasantry ruthlessly. They paid lump amounts to the government or the provincial governor and appropriated the excess receipts for themselves. In course of time, these middlemen became zamindars or owners of the lands. They recovered large amounts in the form of rent and cesses; and paid only the fixed land revenue to government. The rulers and the chieftains, who did not much care what happened to the peasants, also found this method suitable as they were saved the trouble of maintaining a large number of tax-collectors and also were assured of regular receipts. The East India Company, after the acquisition of the 'Diwani' of Bengal, Bihar and Orissa in 1765, continued for some time the prevailing land revenue system and tried to collect its revenue through supervisors or collectors. These were shortly replaced by a Committee of Circuit who were instructed to tour the province, conduct auctions and make land revenue settlements with the highest bidders, the period of settlement being fixed at five years. The new system, however, proved unworkable. The old zamindars and farmers who wished to retain possession of their lands had to bid higher and pay much more revenue than their estates could yield. Arrears accumulated and the income from land revenue went down. The disastrous famine of 1770 further worsened the condition of the peasantry.

4. It was about this time that the East India Company waged wars of conquest in different parts of India. A regular inflow of revenue was absolutely necessary to enable the Company to consolidate its position and to expand its activities. The collection of land revenue direct from a large number of cultivators raised several problems at that time when means of communication were poor and there was paucity of trained staff and lack of reliable records. It was also necessary for the Company, which wanted to consolidate its position in India, to create a class of vested interests upon whose loyalty and devotion it could rely in times of difficulty. The Company was also interested in the extension of cultivation in order to increase its receipts and it hoped that settling the land revenue on a permanent basis would encourage such extension of cultivation and improvement of land. All these considerations led the East India Company to decide in favour of a permanent settlement of land revenue in the areas now covered by Bengal and parts of Bihar and Orissa. Under the 'permanent settlement' it was guaranteed that the land revenue then fixed would continue in perpetuity and the zamindars were thus assured of the benefits of any future increments in the

Permanent settlements

value of and income from lands. Actually, however, the permanent assessments were determined at about ten-elevenths of the rents received by the zamindars. Similarly, though the zamindars were given proprietary rights over the lands and were armed with powers over the person and property of the ryot, their estates were liable to be sold for arrears of revenue if it was not paid within the prescribed date. Therefore, in the period immediately following the permanent settlement, the zamindars suffered heavily through excessive burden of land revenue assessment. The Bengal Land Revenue Commission, 1938, describes this period in the following words:

"The period immediately after the Permanent Settlement, and indeed for three or four decades, was one during which the zamindars were struggling for their existence against the sale law. At that time, one-third of the total area of Bengal according to Lord Cornwallis, two-thirds according to Colebrooke and four-fifths according to Grant, was uncultivated; and the only way in which the zamindars could improve their assets was by bringing waste land under cultivation. The competition was not for land, but for tenants to cultivate it. Consequently, if the ryots withheld their rent, or abandoned their holdings, the zamindar was hard put to it to pay a revenue amounting to ten-elevenths of his assets. The records of that period and the Fifth Report show that more than half the estates in Bengal were sold for arrears of revenue; many of the large zamindars were dismembered; and most of the original zamindars reduced to poverty."

As time went on, however, cultivation was extended, prices rose and the rents increased. The burden of assessment on the zamindars became lighter. Many of the zamindars sublet their zamindari or portions thereof to others and avoided even this trouble of directly collecting rents from their tenants.

5. There is little doubt that after a lapse of time permanent settlement led to expansion of cultivation. From the point of view of Government, there was the advantage that it ensured a regular inflow of land revenue. For that reason, it was extended to other parts of the country, viz., Banaras and parts of Madras and Assam. Later, when the Company's rule was more securely established, the view gained ground that the State would benefit more from periodical settlements. Further, in certain parts of the Company's territories, viz., the U.P. (now Uttar Pradesh) and the Punjab, there were well organised village communities and, barring a portion of the U.P., there were no local chieftains or large farmers of land in this area. These areas thus presented a different problem, and settlement was concluded with village communities and the villagers were held jointly and severally responsible for the payment of revenue. This came to be known as the Mahalwari system of land revenue, as the land revenue was assessed on the 'mahal'. In some parts of Madras, the land revenue was directly settled with individual ryots in view of the difficulty of making settlements with the whole villages. This initiated the ryotwari system which was later introduced in Bombay

Mahalwari and ryotwari settlements

and other neighbouring provinces. Both these systems—mahalwari and ryotwari—involved detailed surveys of fields and classification of lands according to soil. The assessments were fixed not in perpetuity but for a definite period.

6. The different systems of settlements that have thus evolved in India can be broadly classified as: (i) permanent or those in which assessment was fixed in perpetuity and (ii) temporary or those in which assessment was fixed for a definite period. They can also be classified as: (i) zamindari, in which assessment was fixed on an estate held only by a landlord, (ii) mahalwari, in which assessment was fixed on a village or mahal jointly and severally on the whole village community and (iii) ryotwari, in which assessment was fixed on the holding of a ryot. The main features of the systems of revenue settlement prevailing in different States in India are briefly set out in Appendix A.

7. The main distinction between settlements with landlords in possession of single estates and settlement with proprietary bodies for group of estates on the one hand and the ryotwari system on the other hand is that in the former there is an intermediary between the actual cultivator and the Government, whereas in the latter there is none. Unlike in the mahalwari tenure, in the ryotwari tenure no joint responsibility is placed on all holders in a village and one landholder cannot be called upon to make good the default in payment of land revenue of any other landholder in the village. The ryot cannot be evicted from his land so long as he continues to pay the assessment and he can transfer his rights in the land to others by sale, gift, partition, etc. He is also free to relinquish his holding or any part of it on giving due notice to Government.

8. Though the general pattern of land revenue settlement and assessment in India broadly follows the description given above, the development of the different systems has not been on the same lines in all States. This disparity has been further widened with the integration of the former princely States where, except in a few States administered by retired or deputed officers from (British) India, there were no regular settlements or systems of land revenue. The result is that, at one end we find States like Punjab, Bombay (before the merger in it of certain princely States), Madras, Assam and Mysore in which practically all the land has been surveyed, measured and settled on some definite principles. At the other, there are States like Rajasthan, Saurashtra and Madhya Bharat where there are still large portions of unsurveyed and unsettled land and where settlements made in the past followed no scientific principles and have been more or less the result of political conditions prevailing in the States at the time. In between, there are States like Uttar Pradesh and Madhya Pradesh where there have been settlements on regular lines, but owing to the prevalent zamindari system, several intermediaries had crept in. Recently, these intermediaries have been eliminated and the former tenants have become occupants of land directly responsible to the State Governments for payment of revenue. But the revenue realised from these former tenants is the same as the rent paid by them previously to the intermediaries and has not been revised on the abolition of the intermediaries. The lands have

difficulties mostly influenced the rates of land revenue recently fixed and these are likely to continue for a time. Conditions in the States of West Bengal, Bihar and Orissa are more or less similar, and in quite a large part of these States, there was no organised land revenue administration at the lower level because of the permanent settlement. The records of lands were therefore in most cases not complete and accurate.

9. The system of assessment through settlements for a definite period and revision of assessment after that period prevails generally in all parts of India except in the permanently settled areas or in certain insecure riverain tracts in some States, where a system of fluctuating land revenue is in force. Under the periodical settlement system, an area for which a settlement is undertaken is cadastrally surveyed and classified according to fertility. The rate of revenue is then worked out by taking into consideration the yield of the principal crops, the price of agricultural produce, the rental and sale value of the land and the ordinary expenses of cultivation. Other considerations like physical configuration, climate and rainfall, proximity to markets, means of communication and standard of husbandry also figure in the determination of the assessment at the time of the settlement. The assessment so determined is fixed for a term of years, varying from 15 to 40 years; the usual period is 30 years. When the revision of a settlement becomes due, the various changes that have occurred since the last settlement, in the conditions and circumstances relevant to the assessment of land revenue, are taken into consideration. The necessity for periodical revision of assessment arises mainly because of changes in—

- (a) the area of the land and holdings; and
- (b) the prices and yields of agricultural produce.

10. In calculating the land revenue payable to Government, different States adopt different methods. On the basis of the principles adopted, these methods can be classified as follows:—

Different Bases of land revenue

- (i) net assets or economic rents,
- (ii) net produce or annual value,
- (iii) empirical,
- (iv) rental value,
- (v) capital value, and
- (vi) gross produce.

(i) *Net assets or economic rents.*—Net assets form the basis of assessment in Punjab, Uttar Pradesh, Madhya Pradesh and certain Part B and C States like PEPSU, Himachal Pradesh, Ajmer and Delhi. Similar principles are followed in the temporarily settled areas of Bihar, Orissa and West Bengal. Net assets have been defined as the “estimated average annual surplus of an estate or group of estates remaining after deduction of the ordinary expenses of cultivation as ascertained or estimated.” In other words, it is rent less all

costs incurred in earning the rent. This is calculated by estimating the gross produce and deducting from it the cost incurred by the landlord. The gross produce is valued in terms of money at the commutation rate which is usually the average price of a particular crop for the preceding twenty years or more.

(ii) *Net produce or annual value*.—Madras is the only State which has accepted net produce as the basis of land revenue assessment. The average outturn per acre of the staple crops, for different kinds of soil, is at first determined on the basis of crop experiments and enquiries in the field. The gross value is then worked out on the basis of commutation price, i.e. the average price of the preceding twenty non-famine years. The net produce or annual value is then derived by deducting from the gross value the cultivation expenses and also by making certain allowances for bad seasons. Cultivation expenses include expenses on—

- (1) ploughing cattle,
- (2) agricultural implements,
- (3) seed,
- (4) manure,
- (5) wages of labour required for sowing, transplanting, reaping, threshing, etc.

(iii) *Empirical*.—The basis of assessment in Bombay, Hyderabad, Mysore and several Part C States like Bhopal, Manipur and Tripura is empirical. It is so called because several factors are taken into consideration by the Settlement Officer at the time of settlement or revision, and the assessment is ultimately based on the subjective impressions of the settlement officer. He is required to examine the economic background of the tract, and to find out whether the area under cultivation and occupation has expanded or decreased and whether the material condition of the people has improved or not. He has also to take into consideration the proximity of markets, the facilities of communications, the fluctuations in the prices of main staples and in the land values of the tract under settlement. The aggregate amount of assessment is first fixed for the whole of a tract and then distributed over the villages and individual survey numbers by means of maximum rates for the various classes of lands.

(iv) *Rental value*.—The main emphasis in all the above States except Madras is on rental value. Though the basis of assessment in these States is net assets or is empirical, the general method adopted is to determine by enquiry the actual rents received by the landholders and then to fix the assessment after allowing for certain deductions. The recent trend in tenancy legislation is to fix the maximum rents payable by the tenants, and it seems clear that rental value cannot, in future, be relied upon for determining the land revenue.

(v) *Capital value*.—Capital value has not been adopted as a basis of assessment in any State in this country, though in practically all the States, the sale and mortgage values of the land form one of the factors taken into consideration at the time of settlement.

(vi) *Gross produce*.—Before the more scientific methods of assessment were evolved, gross produce formed the basis of assessment in almost all States in India. In Assam, this basis still continues and the limit of assessment for any tract has been fixed at ten per cent. of the value of the gross produce of that tract

11. The administrative machinery for the collection of land revenue is, more or less of a uniform pattern in all States, except in areas under permanent settlement. Each State has a Chief Revenue Authority which is usually known as Board of Revenue. In the Punjab this function is discharged by the Financial Commissioner. In Bombay, however, there is neither a Financial Commissioner nor a Board of Revenue; appeals, revisions, and other references, arising from the orders and decisions of the Revenue Officers are decided by the Revenue Tribunal in that State, while purely administrative questions are decided by Government. The usual practice is for States to be divided into divisions and districts, with Commissioners in charge of the divisions and Collectors or Deputy Commissioners in charge of the districts. In a few States like Bombay and Madhya Pradesh there are no posts of Divisional Commissioners. The districts are again divided into tehsils or talukas, each in charge of a Tehsildar with one or two Naib-Tehsildars to assist him. Below these there is a well-organised system of village officers who actually collect the land revenue, prepare accounts and keep records. Hitherto most of these village officers held their posts on a hereditary basis. The recent trend, however, is to replace them by paid officials. The village officers are "lambardars" or "patils" who collect the land revenue and patwaris or village accountants. The functions of the lambardar or patil are—

- (1) to collect and pay into the treasury the land revenue and all sums recoverable as land revenue; and
- (2) to aid in carrying out harvest inspections, surveys, and in maintaining the record of mutations.

In some States, e.g., Bombay, the patil is sometimes also assigned certain quasi-magisterial duties. The duties of a patwari or a village accountant are—

- (1) to make surveys for field inspection, record of crops, revision of maps, and to furnish reports relating to mutations, partitions, takavi advances, etc.;
- (2) to report calamities affecting crops, including crop positions, to assist the Revenue and other officers visiting his taluka in the performance of their duty; and to assist generally in collection of land revenue.

In the permanently settled areas, there has hitherto been no elaborate administrative machinery at the village level for the collection of land revenue as it was paid direct into the State treasury by the estateholder or the zamindar. In the initial stages of the introduction of permanent settlement, Kanungos and Patwaris were appointed to supervise the accounts and to help the zamindars' gumastas or agents for making local collections. But later, when Government ceased to look into the details of local collections and concerned themselves only with the lump sums payable by the zamindars, the posts of Kanungos were abolished, while the Patwari became a servant of the zamindar. The introduction of the recent agrarian reforms abolishing the zamindari tenures in these areas has, however, necessitated a change in the revenue administration. The State Governments concerned with

these areas have in most cases already reorganised their administrative machinery to suit the changed conditions.

12. In practically all the States, concessions in the payment of land revenue are granted when crops fail. **Suspensions and remissions** These concessions are in the nature of suspension or remission of land revenue. There were no specific rules for suspensions and remissions during the pre-British period. As a result of the report made by the Famine Commission appointed in 1901, general orders regarding suspension and remission of land revenue were issued in 1905 by the Government of India for the guidance of all State Governments. These orders were to the following effect:—

- (1) Relief should ordinarily be in the form of suspension and should be extended in a fairly uniform manner to whole villages or tracts or groups of villages.
- (2) It should not ordinarily be given except in the case of failure of more than half the crop, and the degree of relief given should be based on a simple scale of ratios so graduated that the degree of relief may rise more rapidly than the degree of crop-failure.
- (3) The amount of relief granted should be known to the people before collections begin, and the Collector should, where possible, be given the power to determine and announce the suspension of revenue.
- (4) The amount of revenue suspended should be remitted as soon as it becomes apparent that it will not be collected, and this may ordinarily be assumed when it has been in suspension for three years, and in certain classes of tracts remission should be given when the amount suspended exceeds an year's revenue.
- (5) Remission or suspension of revenue should entail a corresponding remission or suspension of rent and *vice versa*.

Statutory provision for suspension and remission of land revenue has accordingly been made in certain States, e.g., Bombay, Saurashtra, Kutch, Punjab, PEPSU, Madhya Pradesh, Uttar Pradesh, Hyderabad, Bihar and Assam. In certain others e.g., Mysore, Madras, Madhya Bharat and Rajasthan, suspensions and remissions are provided by means of executive instructions. Normally, remissions are given when there is a widespread failure of crop due to famine, floods, etc. There have, however, been occasions in the past, as during the nineteen-thirties, when remissions were given in a few States to mitigate the hardships caused to the ryots by the steep and continuous fall in prices. The rules for the grant of remission of land revenue do not usually make any distinction between the well-to-do ryots and the poorer ones. The Government of Madras have, however, recently decided that there is no justification for allowing remission to persons who are well-to-do and who can afford to adjust the losses in one year against profits of another. Orders have, therefore, been passed by the Madras Government restricting the grant of remission only to the poorer ryots.

CHAPTER II

THE BACKGROUND OF LAND REVENUE

(2) Recent developments

As part of the background against which the problems of land revenue must be viewed, we may now consider certain developments which have taken place after Independence. Some of these have set new and important tasks to the revenue administrations of the States; others have involved significant changes in the agrarian pattern of the country and, therefore, in the land revenue systems as well.

2. Firstly, there has been the integration of the former princely States with India and the merger of their areas, some with Part A States and some into Part B and Part C States. An idea of the magnitude of the change can be had from the fact that as a result of the application of various merger and integration schemes:

Integration of princely States

- (a) 277 States covering an area of 3,27,221 square miles with a population of 67.8 millions have been integrated in Unions of States (Part B States);
- (b) 216 States covering an area of 1,08,739 square miles with a population of 19.158 millions have been merged in Provinces (Part A States); and
- (c) 61 States covering an area of 63,704 square miles with a population of 6.925 millions have been taken over as centrally administered areas (Part C States).

3. Secondly, several measures of tenure and tenancy reforms have been undertaken by State Governments. The abolition of the intermediaries, the proposed restrictions on individual holdings, and many connected reforms may be said to be designed to make the tiller of the soil the proprietor or near proprietor of his land and to bring him into direct relationship with the State. The tenancy reforms are intended to be complementary to the tenure reforms and aim at giving greater security and additional rights to the tenants.

Measures of land reforms

4. Thirdly, since the advent of provincial autonomy, settlements of lands were postponed in almost all States for various reasons. Chief among these may be mentioned the unsatisfactory condition of the agricultural economy and the exception taken to the basic assumptions of the system of revision settlements. The result has been that in most cases the previous settlements have now become overdue for revision (*vide* Appendix B). While some States with the zamindari system, where the lands were permanently settled or which had large plantation areas, introduced the agriculture income-tax and realised fairly appreciable revenue from the increase in the agricultural incomes of large land holders, others, where the tenure was ryotwari and big land-holders were the exception, neither imposed an agricultural income-tax nor undertook immediately the immense task of revision

Postponement of resettlements

of previous assessment. Though, recently, a few of these have adopted the expediency of levying a surcharge on land revenue, the adjustment of land revenue to present-day realisations from land still remains a problem for a majority of the States.

5. For a proper understanding of the effects of the political integration of the former princely States on the Indian land revenue system, it is necessary to examine briefly the present position in these areas in regard to land revenue. In the former princely States, the degree of political and administrative efficiency varied greatly and consequently there was wide diversity in the land revenue systems in those areas. In some States like Hyderabad and Mysore, there was statutory provision for settlements and assessments, but in most other Indian States, past custom and usages determined the revenue payable for the land; survey and settlement operations were taken in hand according to the exigencies of the administration. Even in Hyderabad, there were about 2,000 villages in which original survey and settlement had still to be carried out. In the eight princely States which now form PEPSU, the policy in respect of land revenue was different in different States and there was great disparity not only in rates but also in the standards of assessment. The percentage of assets taken as land revenue varied from one-fourth in some of the States to nearly full in Malerkotla. Some of the princely States now merged in the Unions of Madhya Bharat, Rajasthan and Saurashtra were probably the worst situated in respect of their land revenue systems and administration. So far as Madhya Bharat is concerned, survey and settlement were carried out in Gwalior and Indore, but even there, no uniform policy was followed. Vast unsurveyed areas existed in Alirajpur and Jobat tehsils. At the time of merger, revision settlement had been conducted only in 30 tehsils, i.e., three-eighths of the entire State remained to be surveyed and settled. The basis of assessment was empirical. In Rajasthan, out of a total number of 33,418 villages, only 17,280 villages were settled and cash rents introduced therein. In Jaipur State, the basis of assessment had been the rental income, whereas in the rest of the units the basis of assessment was empirical. In Jagir areas, cash rents were exceptions rather than the rule. The incidence of land revenue in Khalsa areas was light, as it was fixed during a period of low agricultural prices, but in the non-Khalsa villages it was higher by nearly four times. This was due to lack of any laws or regulations governing settlement. In the 200 different States and estates now constituted into Saurashtra, the position about survey and settlement was very unsatisfactory. Survey and settlement in Junagadh were made between 1895—1905; in Bhavnagar, 1923—1928; in Nawanagar, 1899—1916 and in Wadhwan in 1918. In several unsurveyed villages, the former administrations used to collect revenue in terms of crop-share, the object being to get the largest share possible. Even in those villages which were surveyed, the survey was undertaken mainly for the purpose of partitioning the villages. Thus at the time of the formation of Saurashtra, survey had still to be done in 2,200 villages covering an area of about 44 lakhs of acres. In Himachal Pradesh, the various integrating units had their own characteristic systems of land revenue. In some of them the revenue was collected in kind. The incidence was very high, particularly in Chamba and certain parts of Mahasu district.

Problems created by merger and integration of princely States

6. In regard to the tenancy laws, the position was no better. There was rack-renting in some of the parts and the ruler or his cadets, jagirdar and inamdar, used to collect rent direct from the cultivators. The landlords exacted several illegal cesses and *abwabs* from the tenants who were even forced to give free labour in some of the backward States. In some of these States, the rulers, zamindars and landlords used to evict tenants from the lands held on lease and cultivated by them for generations, with a view to adding to their own possessions and to avoiding the anticipated effects of land and tenure reforms. This has happened on a large scale in States like PEPSU, Rajasthan, Madhya Bharat and Saurashtra.

7. The problems created by the diversity of tenures and assessments in the former princely States could not be solved immediately on their integration and reconstitution. The orthodox method of settling the assessments in these areas would have necessitated survey and settlement operations on a large scale which would have taken a very long time to complete. In the meantime, the popular Governments which now administer the reconstituted States could not allow these wide disparities to continue for long. Interim measures, differing in their nature, have, therefore, been adopted by the States to bring about some uniformity in the assessments. These measures can be classified as follows:—

(i) *Adoption of summary resettlement.*—The Rajasthan Government have passed the Land Summary Settlement Act, 1952, which provides for cutting down several processes of regular settlement, such as detailed measurements, soil classification and preparation of maps, etc. It is anticipated that the entire unsettled areas in the State will be settled by this rough-and-ready process within a period of two years and the assessment arrived at thus is to continue till regular settlements are undertaken.

(ii) *Ad hoc settlement.*—In Saurashtra, the crop-share system has already been first converted into *ad hoc* cash assessment on the basis of the average of the last fifteen years' realisations. As this resulted in steep enhancement of revenue in some cases, the assessment was later rationalised by refixing it on the basis of one-fourth and one-fifth of the produce for the dry and irrigated areas respectively.

Similarly, in the State of Himachal Pradesh, the land revenue has been converted from kind into cash on the basis of the average money value of the crop.

(iii) *Levelling of rates.*—In some areas of the former princely States, which have now been merged in Part A States, the assessments were much higher than those prevailing in the neighbouring areas of those States. Certain concessions have therefore been given to such areas by some States. For example, Bombay has provided that when the assessment in the merged areas exceeds that in the adjoining pre-merged part by twenty per cent., the excess over that percentage should be remitted. Some similar action is proposed to be taken in Punjab.

While it was possible to level down the assessment where it was much higher, the States find it difficult to increase the rates in the merged areas when they are much lower. In Madras, for example, the Government have not taken any action to level up assessments in the merged State of Pudukottai.

Similarly, in regard to the protection of tenants' rights, action has been taken by the States concerned not only to prevent the eviction of tenants but also for the restoration of those who were evicted without *bona fide* grounds.

8. Vast changes have also been brought about by the land reforms, particularly by those relating to the abolition of the intermediaries, which affect about 38 lakhs of such persons and involves a compensation of nearly 400 crores. The system of permanent settlement in Bengal, Bihar and Orissa created a class of intermediaries in these States. Though the permanent settlement was later given up in favour of settlements for a fixed term, the latter also gave rise to the zamindari, malguzari and jagirdari tenures in Northern India. The ryotwari system which had developed in the South was originally intended to establish direct relations between the tiller or the ryot and the State without the intervention of intermediaries. But in course of time, its character was modified and the original cultivators and tenants in effect assumed, in some cases, the aspect of zamindars and rent receivers. It then became necessary to enact measures in these States for the protection of the tenants and, in some instances, for the abolition of the intermediaries. To improve the economic condition of the tenants and to prevent their exploitation, most States have now enacted measures of tenancy reform. An attempt is made below to examine the effect of the different land reforms on different interests like (a) intermediaries, (b) landlords, (c) tenants and (d) landless agricultural labourers:

(a) *Intermediaries*.—Legislation relating to the abolition of intermediaries usually follows a uniform pattern in the sense that it provides for the abolition of intermediaries on payment of compensation. The basis of assessment, rate of compensation and the rules about interim payments and provision for rehabilitation grants, however, differ in different States and are given in detail in Statistical Appendix 1.

The intermediaries have been allowed to retain such of their private lands as are under their personal cultivation and management. No limit has been fixed for such lands except in Assam and West Bengal. The Assam Act fixes the limit for private land of a proprietor and tenure-holder at 400 bighas (133·3 acres) and 150 bighas (50 acres), respectively, which "may be relaxed in the case of a proprietor or a tenure-holder who has undertaken large-scale farming on a co-operative basis or by the use of power-driven mechanical appliances." In West Bengal, the limit is 25 acres and 33 acres of agricultural land, respectively, for the zamindar and the tenure-holder. The zamindar is allowed to retain fifteen acres of non-agricultural land, in addition. In some States like Rajasthan and Saurashtra, the jagirdars and such other intermediaries, who did not have land for personal cultivation, will be given allotments of land from cultivable waste.

(b) *Landlords*.—The land reforms affect more the type of tenure than the size of the property. Even so, some restrictions have been imposed in this respect as well. The States of Assam and West Bengal have, as indicated above, placed some restrictions on the area of existing holdings. In several other States, ceilings have been imposed on future acquisitions of land. This means that a landholder who has today land below the specified ceiling can in future acquire only that much land which would bring the total area cultivated by him to the level of the ceiling. The maximum for individual holdings varies from State to State. It is 30 acres in Uttar Pradesh, 50 acres in Madhya Bharat and five times the family holding in Hyderabad. Some of the States have imposed limits on the holding of land which a landlord can resume for personal cultivation by ejecting his tenants. The limit is 50 acres in Bombay and Madhya Pradesh, 33 acres in Orissa, 75 acres unirrigated land or 25 acres of irrigated land in Rajasthan, 30 standard acres (50 acres in the case of displaced persons) in Punjab and 8 acres in Uttar Pradesh. Details are given in Appendix C.

(c) *Tenants*: (i) *Tenants other than tenants-at-will*.—While the abolition of zamindari is aimed at bringing the State into direct relation with the actual cultivators of the land, so far it has succeeded only in bringing the tenant-in-chief into direct relationship with the State and the sub-tenants in the former zamindari and jagir areas still continue. In West Bengal, provision has been made for the abolition of intermediaries above *bargadars* but owing to the legal and financial difficulties that arise in the payment of compensation, the relevant provisions will come into effect only when notified by the State Government.

The recent reforms raise the status of the chief tenants and give them greater security. The tenants are also benefited by the abolition of various cesses like 'haks', 'lags' and 'negs' which were previously imposed on the lands. Except in the States of Madras and Assam where the rents of tenants have been reduced to the level of rents in the adjoining ryotwari areas, the rents that the tenants are required to pay to the State are what they had paid previously to the zamindars. To this extent, it can be said that their position has not improved. As regards their rights to the land which they cultivate, in some of the States, they already possessed security of tenure. In the permanently settled areas of Assam, Bihar, Madras and West Bengal, the chief tenants already had the right to transfer their lands. In Uttar Pradesh and Madhya Pradesh where this right of transfer was previously restricted, the chief tenants are given the right on payment of specified amounts of money to Government.

(ii) *Tenants-at-will*.—In regard to tenants-at-will, most of the States have now fixed minimum period of lease, the period generally varying between five and twelve years being renewable for a similar term. Further, practically all the States have fixed the maximum rent payable by a tenant. These rents vary considerably and range between one-sixth to one-half of the gross produce. In some States, the maximum allowed is four to five times the land revenue. The variations between different States are shown in Appendix D.

Some of the States, viz., Bombay, Uttar Pradesh, Madhya Bharat, Hyderabad, and PEPSU, have given certain categories of the tenant a right to purchase his land. In Bombay protected tenants have a right to purchase land provided the land-owner's holding is not reduced below 50 acres. The price of land payable by the tenant is to be determined by the Land Tribunal and is generally to be the average market price. In Uttar Pradesh, the right of purchase of land accrues to sub-tenants after five years of the enforcement of Zamindari Abolition and Land Reforms Act, 1952. The price is to be equal to fifteen times the hereditary rent rates. The tenants in Hyderabad, Madhya Bharat and PEPSU are also given similar rights, though the terms of the purchase price differ in some respects.

(d) *Landless labourer*.—The land reforms undertaken by the States do not apply to landless labourers for the reason that the reforms are related to land. Attempts are, however, made to settle them on land wherever feasible. In the allotment of land taken over from the substantial owners, the newly reclaimed lands and the lands which have been voluntarily surrendered in the *Bhoodan Yagna* movement, preference is generally given to landless labourers.

9. With the abolition of intermediaries, the question of the rate of land revenue for the individual cultivator's holding has assumed importance (see Appendix E). Excepting in Assam and Madras, the whole class of tenants and the outgoing intermediaries in respect of lands settled with them generally continue to pay the existing rates of rent and the assessment levied at the current rates of assessment. As the rents which were being paid by the cultivators in the pre-abolition period varied for different classes of tenants, this has had the effect of introducing varying rates of land revenue for the same class of land depending on whether it is at present held by the previous intermediary or a particular class of tenant. Also it means that those whose ability to pay is the highest are taxed at the lowest rate—thus the erstwhile proprietor has merely to pay a nominal sum as land revenue, e.g., in case of previous proprietor in Uttar Pradesh “the land is first assessed at occupancy rate, then a deduction of 15 to 30 per cent. is allowed, finally only the land revenue, i.e., about 38 per cent. of the figure thus arrived at is what a zamindar pays to the State for the exceptionally good class of land which he cultivates as his *sir* and *khudkast*”.

10. The tenure reforms not only relate to the abolition of the zamindari and jagirdari rights but also include the resumption of *inams*. *Inams* are alienations or transfers to individuals, on political considerations or in return for some service, of the entire or part of the rights of Government to cash payment or to rent or revenue of land.

Broadly, the different kinds of *inams* can be classified as follows:—

- (1) *Political inams*.—These can be sub-divided into *treat saranjams*, *non-treaty saranjams* and other political *inam*.

- (2) *Personal inams*.—These are *inams* granted to individuals for their meritorious services to the State.
- (3) *Devasthan inams*.—These are *inams* granted to support religious institutions like temples, mosques, etc.
- (4) *Hereditary inams granted to district officers*.—These include *inams* granted in the old days to district officers like Deshmukhs, Desais, Deshpandes and Amins.
- (5) *Inams granted to village servants*.—These include *inams* granted to village servants useful to the community and to Government, e.g., to Patels, Kulkarnis and to carpenters, blacksmiths, gamots (priests), kazis, Joshis, etc.
- (6) *Revenue-free grants of land*.—These are usually given to local bodies for educational and charitable purposes, i.e., for construction of hospitals, colleges or other public works from which no profits are derived.

In most States which have undertaken land reforms, the different types of political and personal *inams* have been abolished. In Madhya Pradesh, the State Government have withdrawn the exemption from land revenue of all *inams* (except those in merged areas). Grants are, however, made to religious and charitable institutions either in the shape of money or non-agricultural lands free or on nominal rent. In West Bengal alienation of land revenue is wholly disallowed. In Bombay, with the abolition of intermediaries, the only *inams* that will continue will be religious and charitable *inams* and *inams* for village servants useful to Government.

11. The implementation of land reforms was held up for a time because the validity of many of the State Acts pertaining to these reforms was challenged in courts of law and, pending judicial decision, no action to enforce the reforms could be taken by State Governments. Further, the process of elimination of intermediaries was quicker in States like Madhya Pradesh and Uttar Pradesh where adequate revenue and administrative machinery were already in existence than in the permanently settled areas where there was no revenue agency in the villages. The question, therefore, arose as to what agency should be employed by the State for the purpose of collecting land revenue and also for compiling villages records and discharging other administrative functions in the villages. The provisions in this regard fall into two broad categories. Certain States, e.g., Madras and Assam, have entrusted these functions to official agencies, while some others favour the choice of village bodies like Gaon Sabhas, Anchal Sasans, etc., wherever possible.

12. Apart from the land revenue problems occasioned by the integration of the former princely States with the Indian Union and by the various measures of tenure and tenancy reforms introduced by the different States, there have been certain problems arising from the abnormal times through which the country passed during and after the last War. Except in the permanently settled areas, periodical settlements are the very basis of land revenue assessment. Several of the previous settlements became due for

revision during the last twenty years. These have not been taken up for revision, because of the steep fall in prices which occurred in the early 'thirties and later because of inflationary conditions that arose during the war. Further, during and after the War, on account of the vast expansion of administrative activity, the necessary trained personnel to carry out the technical work of settlement of land revenue assessment was also not adequately available. These difficulties seemed to indicate that the old settlement procedure was no longer suitable. In consequence, different State Governments adopted different measures in connection with the assessment and adjustment of land revenue. Some of the measures adopted are described below.

13. One of the measures adopted was the sliding scale of assessment, an experiment which was tried in the pre-Partition Punjab and is still in operation in Amritsar district. Under it, the maximum rates payable during the currency of a settlement are worked out for each assessment circle, on the basis of commutation prices (i.e., average of the prices prevailing during the previous twenty years); but the assessment at these maximum rates was not collected unless the general price level of the chief staple products of the district during the marketing season of the two preceding harvests was at least as high as the commutation price level. When, however, the price level was lower, proportionate remissions from the maximum rates were granted. In other words, the assessment was based on the relation of the price-levels of the previous two seasons to the commutation price-level adopted for the whole period of the settlement. The prices of the important crops actually obtaining in the tract were ascertained by Government from leading commercial firms and transport and marketing charges deducted therefrom. This gave the average price current in the villages. The crops and the periods selected for the purpose of calculating prices were different in different areas. The crops and the periods taken in the Amritsar district where the system still prevails are as follows:—

<i>Crops</i>	<i>Periods</i>
Wheat	15th June to 15th August
Gram	15th June to 15th August
Toria	15th December to 31st January
Rice (unhusked)	1st October to 30th November
Cotton (unginned)	15th September to 31st December

Assessments were then determined by granting remissions over the maximum rates determined at the settlement, in units of five per cent., i.e., reduction in the maximum leviable assessment is made in terms of five per cent., ten per cent., fifteen per cent., etc. The percentage remission was later substituted by remissions in units of half anna. In calculating the remission due for any particular year, the relation of the harvest index figure to the standard index figure is taken into account. In this manner, the land revenue assessment for any year is adjusted to the standard assessment.

14. In 1946, the State of Travancore made a departure from the usual method of settlements and introduced a uniform levy of fourteen annas per acre of land irrespective of whether it was wet, dry, or garden land and of the tenure in which it was held. While this was the basic assessment, agricultural income-tax was also introduced so that higher agricultural incomes would be called upon to make contribution to the State exchequer in addition to the land revenue payable according to this very nominal assessment. The basic rate of assessment has since been raised to Rs. 1-9-0 per acre. Under this system, there remains no longer any necessity for conducting elaborate surveys and settlements while the introduction of the agricultural income-tax ensures an element of progression in the taxation of incomes from land over a certain level.

Some States, which deemed it necessary that at least a part of the increase in agricultural income due to high prices should accrue to them and at the same time found it difficult and also inequitable to take up regular settlements to fix assessments on the basis of abnormal prices, have imposed surcharges on land revenue as an interim measure of taxation. These States are Hyderabad, Punjab and Madras. In Bombay, a proposal to introduce surcharges was put forward in 1952 but was ultimately dropped.

15. In Hyderabad, a surcharge is being levied since 1952 at the rate of two annas per rupee of land revenue on dry land and one anna per rupee of land revenue on irrigated land. The surcharge in this State is thus a flat rate and does not take into account the greater ability to pay on the part of large landholders. In the Punjab, a surcharge has been recently imposed (under an Ordinance promulgated in June 1954) which varies according to the area held. Agriculturists holding lands between five and thirty acres in area are liable to a surcharge of 25 per cent., and those holding lands above thirty acres to a surcharge of 40 per cent. The surcharge is applicable to lands in all districts except those in which revision of settlement is not yet due. In Madras, the surcharge has been levied by an Act passed on 13th May 1954 and the rate varies according to the amount of land revenue paid. No surcharge is leviable on landholders paying less than Rs. 500 as assessment, while those paying an assessment of more than Rs. 500 are liable to pay surcharge on a slab basis at the following rates:—

<i>Amount of assessment</i>	<i>Surcharge</i>
1. Rs. 250 of assessment	Nil.
2. From Rs. 251 to Rs. 500	.. 2 annas in the rupee.
3. From Rs. 501 to Rs. 1,000	.. 4 annas in the rupee.
4. Above Rs. 1,000	.. 8 annas in the rupee.

The States of Mysore and Andhra have also similar proposals for the levy of a surcharge on land revenue, but the necessary measures have not yet been enacted.

The Madras Land Revenue Reforms Committee has suggested the levy of a surcharge on commercial crops such as oilseeds, cotton, sugarcane etc. and this recommendation is under the consideration of the Madras and Andhra Governments.

CHAPTER III

THE BACKGROUND OF AGRICULTURAL INCOME-TAX

Except for two short periods of nine years in all (1860—1865 and 1869—1873) agricultural incomes have been exempt from the general income-tax and, till recently, from any income-tax. The Indian Taxation Enquiry Committee observed in 1925:

“There is no historical or theoretical justification for the continued exemption from the income-tax of incomes derived from agriculture. There are, however, administrative and political objections to the removal of the exemption at the present time. There is ample justification for the proposal that incomes from agriculture should be taken into account for the purpose of determining the rate at which the tax on the other income of the same person should be assessed, if it should prove administratively feasible and practically worthwhile.”

But the position remained unchanged until the passing of the Government of India Act of 1935; and the actual development which then took place was that a *separate* provincial levy on agricultural incomes became for the first time possible. The segregation of the two types of income and the allocation of agricultural income-tax to the States are features which continue unchanged under the Constitution.

2. Bihar was the first State in India to levy a tax on agricultural incomes. In view of the system of permanent settlement in force in that State, the yield from land revenue was small and inelastic. With the separation of Orissa, the needs of the Government of Bihar for additional revenue increased. Besides, that Government had to make up the loss of revenue it incurred with the introduction of prohibition in certain areas of the Province. Thus for the first time after a lapse of nearly 60 years, income from agriculture was subjected to tax. The Bihar Agricultural Income-tax Act of 1938 was passed and, at intervals, a certain number of other States followed suit. Twelve States now levy the tax:

- States levying agricultural income-tax**
- (1) Bihar,
 - (2) Assam,
 - (3) Bengal,
 - (4) Orissa,
 - (5) Uttar Pradesh,
 - (6) Hyderabad,
 - (7) Travancore-Cochin,
 - (8) Madras,
 - (9) Rajasthan,
 - (10) Coorg,
 - (11) Bhopal, and
 - (12) Vindhya Pradesh.

It may be said of some of these States that it was the existence of big landlords under the permanent settlement or of large plantations of a commercial character that drew the attention of the Governments to the desirability of levying this tax. A late-comer in the field, Madras has restricted the tax to incomes from plantations. In the former princely States constituting Hyderabad and Travancore-Cochin, agricultural income *along* with non-agricultural income had been taxable before the integration of those areas with the rest of India; after integration, only agricultural income-tax is levied by the State Governments.

3. The receipts from agricultural income-tax in the different States **Receipts from agricultural income-tax** have been as follows:—

TABLE 1.—*Receipts from agricultural income-tax*

(In lakhs of Rupees)

States	1940-41	1945-46	1950-51	1951-52	1952-53	1953-54	1954-55
Bihar . . .	15	31	69	57	46	35	22
Assam . . .	39	49	79	91	1,08	89	69
West Bengal . . .	..	..	63	64	61	63	64
Orissa . . .	..	..	10	13	7	8	8
Uttar Pradesh . . .	..	..	1,38	1,00	71	58	36
Hyderabad . . .	..	..	..	11	3	5	5
Travancore-Cochin . . .	..	..	50	99	96	90	90
Madras . . .	..	..	..	..	..	..	7*
Coorg . . .	..	..	..	..	14	15	10
Rajasthan (1-4-1954) . . .	..	..	..	..	..	..	15
Bhopal . . .	..	..	..	..	..	..	2
Vindhya Pradesh . . .	..	..	..	..	1	1	3

*Estimate.

4. The Constitution, under Article 366, specifies that 'agricultural income' shall mean agricultural income as defined for the purposes of the enactment relating to Indian Income-tax. Accordingly, all States which levy an agricultural income-tax adopt the definition contained in the Indian Income-tax Act, with a few slight modifications to suit local conditions. Section 2 (2) of the Indian Income-tax Act, 1922, defines 'agricultural income' as follows:—

Definition of 'agricultural income'

- (a) any rent or revenue derived from land which is used for agricultural purposes and is either assessed to land revenue in the taxable territories or subject to a local rate

assessed and collected by officers of the Government as such;

- (b) any income derived from such land by—
- (i) agriculture, or
 - (ii) the performance by a cultivator or receiver of rent-in-kind of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him fit to be taken to market, or
 - (iii) the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him, in respect of which no process has been performed other than a process of the nature described in sub-clause (ii);
- (c) income derived from any building owned and occupied by the receiver of the rent or revenue of any such land, or occupied by the cultivator, or the receiver of the rent-in-kind, of any land with respect to which, or the produce of which, any operation mentioned in sub-clauses (ii) and (iii) of clause (b) is carried on:

Provided that the building is on or in the immediate vicinity of the land, and is a building which the receiver of the rent-in-kind by reason of his connection with the land, requires as a dwelling-house, or as a store-house, or other out-building.

Though the definition is clear, occasionally questions have been raised whether particular incomes are agricultural or non-agricultural. Most of these disputed points have, however, been settled by judicial decisions. The following incomes are also now held to be agricultural incomes:—

- (i) income derived from the letting out of pasture land provided the animals pastured are agricultural animals;
- (ii) amount paid by mortgagor-lessee to the mortgagee under usufructuary mortgage, whether or not the amount is or ought to be appropriated towards the principal or interest of the mortgage or to any other purpose;
- (iii) *malikanas* payable to a proprietor in lieu of surrender of all his proprietary rights, to a transferee, which is payable whether or not the lands are used for agricultural purposes;
- (iv) interest payable on arrears of rent on the ground that it is not payable for use of the land but as compensation for delay in payment.

5. Agricultural income-tax is charged for each financial year in accordance with and subject to the provisions of the State Acts, on the total agricultural income of the previous year of every 'person' which term includes an association of individuals, undivided Hindu

rates of tax in different States

family, a firm or a company. The rates of levy, in some States have been laid down in the enactment itself while in a few others the rates are fixed annually under the Finance Acts. For the sake of administrative convenience as also on considerations of equity, the States have prescribed an exemption limit and have laid down that annual incomes below the limit will not be assessable to tax.

The exemption limits and the rates of the tax have in no State remained constant. The former have been reduced and the latter increased as occasion seemed to demand. In a few States, incomes have been subjected also to super-tax. When Bihar first levied the tax in 1938, the prescribed exemption limit was Rs. 5,000. The rates were also lower than at present—the minimum was six pies in the rupee on incomes exceeding Rs. 5,000 and the maximum was 30 pies in the rupee on incomes exceeding Rs. fifteen lakhs. Today, the exemption limit is Rs. 3,000, the minimum rate is nine pies in the rupee with a maximum rate of four annas per rupee for incomes exceeding Rs. fifteen lakhs and in addition, there is a surcharge on incomes exceeding Rs. 25,000 at rates varying from a minimum of one anna in the rupee on incomes not exceeding Rs. 35,000 to a maximum of five annas and three pies in the rupee on incomes exceeding Rs. 1.5 lakhs. In Travancore-Cochin, the exemption limit was originally fixed at Rs. 2,000 but was later increased to Rs. 3,000. The rates vary from a minimum of nine pies to a maximum of four annas in the rupee on incomes exceeding Rs. 25,000. In addition, super-tax is levied on incomes exceeding Rs. 45,000 at rates varying from 1½ annas to six annas. In Bengal also, the rates originally fixed were lower than the present rates. The exemption limit is fixed at Rs. 3,000. Further, persons possessing land not exceeding 80 bighas are also exempt. Uttar Pradesh has a similar exemption limit: Rs. 3,000 or cultivated area not exceeding 50 acres. But the rates of tax are much higher, the minimum rate is one anna against nine pies in Bengal; and a super-tax is also levied on incomes exceeding Rs. 25,000 at rates varying from one anna to five and a quarter annas in the rupee. The exemption limit in Orissa has been Rs. 5,000 since the beginning, but the maximum rate has recently been raised from three annas in a rupee to twelve annas six pies in a rupee. The exemption limit in Madras is Rs. 3,000 and the minimum rate is nine pies and the maximum rate is four annas in the rupee. Hyderabad has the highest exemption limit and the lowest rates of tax. The exemption limit is Rs. 10,000 and the rates vary from six pies to three annas. The exemption limit in Rajasthan is Rs. 6,000 while the rate of tax varies from six pies to two annas and four pies in the rupee. In Coorg, the exemption limit has been fixed at Rs. 3,500 and the minimum rate is six pies in the rupee, the maximum rate being four annas in the rupee.

Detailed information regarding the exemption limits, the rates of tax (including super-tax), etc., is given in Statistical Appendix 2.

6. The tax rates in all the States are based on the 'slab system'.
Effect of tax on agricultural incomes The first slab of Rs. 1,500 is exempted from this tax. In Orissa, the tax-free slab has been fixed at Rs. 3,000.

The effect of the tax on different groups of agricultural income in some of these States is shown below:—

TABLE 2.—Effect of agricultural income-tax on certain groups of agricultural incomes

States	Income groups	Rs. 5,000	Rs. 10,000	Rs. 25,000	Rs. 50,000	Rs. 1,00,000
<i>Tax Burden</i>						
Bihar . . .		164	633	3,914	12,352	34,695
Assam . . .		164	555	3,836	10,086	22,586
West Bengal . .		164	555	3,367	9,617	22,117
Orissa . . .		163	373	2,717	13,186	43,811
Uttar Pradesh .		219	688	3,031	10,469	32,968
Hyderabad . .		109	422	2,931	7,636	17,046
Travancore-Cochin .		164	633	3,758	12,664	37,039

7. Apart from levels of income which are exempted, there are also types of agricultural incomes which are exempted, such as:—

- Exemptions**
- (i) any income derived from a house or building which is in actual use and occupation of the receiver of rent or revenue or the cultivator or the receiver of rent-in-kind as the case may be;
 - (ii) any income derived from property held under trust or other legal obligation wholly for religious or charitable purposes and, in the case of property so held in part only for such purposes, the income applied or finally set apart for application thereto;
 - (iii) any income received by a person as shareholder out of the agricultural income of a company which has certified that it has paid or will pay the tax in respect of the agricultural income of the company;
 - (iv) any income received by a person as his share out of the agricultural income of a firm or association of individuals if tax has been levied on the agricultural income of such firm or association; and
 - (v) any sum received by a person out of the agricultural income in respect of which tax has been assessed on the common manager, receiver or any court of wards, etc.

8. From the gross agricultural income derived by an assessee, the following principal deductions are allowed by the States in computing the assessable income:—

Assessment procedure

- (1) actual payment of revenue to the State or of rent to the superior landlord;
- (2) actual payment of any local rate or cess including irriga-

- (3) collection charges at a prescribed per cent. (which varies from 12 to 20 per cent.) of the amount of rent or revenue;
- (4) actual expenses incurred on the maintenance (i) of any irrigation or protective work for the benefit of the land or (ii) of any capital asset required for the collection of rent;
- (5) interest paid on any amount borrowed and actually spent on any capital expenditure incurred for the benefit of the land;
- (6) depreciation at prescribed rates (which are different in different States) in respect of any capital asset purchased or constructed for the benefit of the land;
- (7) interest paid on any debt (including mortgages) or other capital charges incurred for the benefit of the land;
- (8) any *malikana* or amount of interest on natural calamities loans actually paid;
- (9) expenses of cultivation, including those incurred on the maintenance of agricultural implements and cattle, and expenses for transporting the produce to market;
- (10) any tax, cess or rate paid on the cultivation or sale of the produce; and
- (11) subject to prescribed restrictions, any sum paid by an assessee to effect an insurance or to make a contribution to a provident fund.

For enabling proper assessment to be made, an assessee is asked to maintain elaborate accounts. While this is possible for the bigger farmers, companies and owners of plantations, the small farmers find it extremely difficult to comply with all the requirements of the tax provisions. Certain States adopted in the past a simple method of assessment under which an agriculturist was presumed to have earned an income equal to a specified multiple of the rent received from the land. The agriculturist had the option of having his taxable income from agriculture determined either on his books of accounts or on the basis of this multiple. The system has, since 1948, been abandoned in Bihar because of difficulties in fixing the operative multiple for each area as also on account of a noticeable abuse of this option by the assesseees. In Bengal too, the system has been discontinued. Uttar Pradesh, however, continues the practice of offering an alternative. The multiple was originally fixed at the maximum of seven and a half times the rent of the land, and the Board of Revenue was authorised to fix the operative multiple for each district or portion thereof within the prescribed maximum. The maximum has since been raised to twelve and a half times the rents, in view of recent increase in the prices of agricultural produce. It has also been laid down that once an assessee decides to exercise the option of being assessed under this system, he will not be entitled to vary the method of computation of his income except with the permission of the Board of Revenue. This has reduced the possibility of abuse of the facility.

9. For certain special types of agricultural income, a separate assessment procedure is laid down. The provisions relating to the assessment of special types of agricultural incomes like those of a Hindu undivided family, a trustee, a manager, a receiver, a non-resident assessee, etc., are generally the same in most of these States and are explained below in brief:

(i) *Hindu undivided family*.—The total agricultural income of a Hindu undivided family is treated as the income of an individual and assessed as such in Bihar, Orissa, and Hyderabad. If, however, the Hindu undivided family consists of brothers only, or of brothers and their sons, the total agricultural income is assessed at a concessional rate. The laws in operation in West Bengal and Travancore-Cochin have no specific provision regarding the assessment of Hindu undivided families, but it appears that the total income is assessed as that of an individual as in the aforesaid three States. In Uttar Pradesh it has been provided that the tax on agricultural income of a Hindu undivided family should be so assessed that the share of the amount which a coparcener receives on partition of the property has to be treated as the separate income of each coparcener and liable to tax as such, provided, firstly, that the father and the son or the son's son should be deemed to be one coparcener and, secondly that the income derived by a woman from her *stridhan* property is not included in the agricultural income of the undivided family.

(ii) *Person holding land for the benefit of several persons*.—If a person holds agricultural land on trust from which income is derived wholly for the benefit of others or partly for his own benefit and partly for the benefit of another, tax is assessed on the total income at the rate which would be applicable if such person had held the land as his personal property and exclusively for his own benefit. The tax so payable is assessed on the persons holding such land.

(iii) *Common manager, receiver, etc.*—When a person holds land as the common manager, as a receiver, or as an administrator on behalf of persons jointly interested in such land, the aggregate of the sums payable as agricultural income-tax by each person is recoverable from the common manager, receiver, or administrator who is deemed to be the assessee in respect of the tax payable by each such person.

(iv) *Court of Wards, Administrator-General, etc.*—In the case of agricultural income which is received by the Court of Wards, the Administrator-General, or the Official Trustee, the tax is levied upon and recoverable from these persons in the same manner as from the person on whose behalf such income is received.

(v) *Non-residents*.—In the case of persons residing outside the State in which the tax is levied, all agricultural income accruing to such persons whether directly or indirectly through or from any land within that State, is deemed to be received in that State and is chargeable to the agricultural income-tax of that State.

10. In Uttar Pradesh, the administration of the agricultural income-tax is entrusted to the district revenue officers. Other States have a separate Agricultural Income-tax Department. The administrative provisions regarding

submission of returns, assessment, appeal or revision, etc. are more or less similar in all the States. These are briefly indicated below:—

- (a) *Return of income.*—The return is generally required to be furnished within 60 days of the publication of the notice calling for such return. The time for submitting the return is extended if the assessing authority is satisfied that adequate reasons exist for such extension. The assessee can furnish a revised return at any time before the assessment is made if he discovers any omission or wrong statement in the original return.
- (b) *Assessment.*—If the agricultural income-tax authority is satisfied that the return furnished is correct and complete, it is open to him to make an assessment on the basis of the return. If not, he serves a notice on the assessee requiring him to produce necessary evidence in support of the return. When an assessee fails to furnish a return or avoids compliance with the terms of the notice duly served on him, the assessing authority usually proceeds to assess the tax on a discretionary basis.
- (c) *Appeal and revision.*—In all the State enactments relating to agricultural income-tax, there is provision for appeal and revision against an order of the lower assessing or appellate authorities. The appeal has to be submitted in the prescribed form and within the prescribed time. The appellate authority cannot only confirm, reduce, or annul an assessment, but can also increase the assessment. No enhancement of an assessment can, however, be made by the appellate authority unless the assessee has been given a reasonable opportunity of being heard. More or less the same procedure is adopted for revisions against the orders of the appellate authority. West Bengal and Hyderabad have Appellate Tribunals. In other States, the Boards of Revenue are the final revisional authorities; any appeal from their orders lies to the High Court, but only on questions of law.

CHAPTER IV

PROBLEMS OF FUTURE POLICY AND THE CHANGING SIGNIFICANCE OF LAND REVENUE

Introductory In the last three chapters, we have briefly outlined the development of land revenue and, as auxiliary to it, of agricultural income-tax. It is now necessary to consider certain features of that development from the standpoint of future policy. In the same connection, it is also necessary to give some account of the changes which have occurred in the significance of land revenue as an item of contribution to the exchequer and as an item of burden on the agriculturist: how this significance has altered from time to time, and indeed undergone very substantial modification since the early days of the introduction of the land revenue systems. This, we may note, has happened in two ways, both of them external to the systems themselves. First, there have been the vast changes in agricultural economy, including the big upward price movements of agricultural produce, in the perspective of which land revenue has shrunk in dimension. Secondly, there has been the transformation of a simple fiscal system, with land revenue as its main feature, into something much wider and more diversified: in other words, into the complex system of the present day in which income-tax, customs, excise and the many State taxes, including the sales tax, have come to claim a place which, in some instances, far exceeds in importance than that occupied by land revenue.

It is not possible within the compass of this Report, and not requisite for our purpose, to deal in great detail with any of these matters. Only a brief and general account of them will, therefore, be attempted. We will begin by drawing attention to certain issues of future policy; point out how the consideration of the altered economic and fiscal significance of land revenue is germane to many of these; and then proceed to examine the changes which, over broad periods, have taken place in that significance.

Different issues and contents of future policy 2. To a large extent, the issues we have in mind are implicit in the alternative lines of future policy concerning land revenue which may be theoretically suggested and which in fact have often been concretely advanced. There are also other issues which perhaps are best set out as arising from measures which have been, or are being, undertaken by different State Governments as solution of some of the more pressing problems which land revenue has presented to them. As a convenient method of considering these questions, we set down below, in the shape of proposals and measures, the contexts in which the issues may be said to arise:—

(i) First, there are the proposals which aim at the wholesale replacement of land revenue by an alternative system of taxation, on the ground, among others, that land revenue as it obtains is an inequitable burden on the majority of those who have to pay it.

Among the complete substitutes advocated are: agricultural income-tax, a combination of agricultural income-tax with a system of low flat rates of land tax and, lastly, a sales tax on agricultural produce at the point of sale by the agricultural producer.

(ii) Secondly, there is a set of suggestions which, as distinguished from the first, involves the substantial retention of the present system of assessment and re-assessment of land revenue, through the processes of survey classification, settlement and periodical re-settlement. For example, these proposals do not contemplate any radical change either in the small local area (usually the taluka) or the numerous local factors (including local prices and their fluctuation) to which each operation of re-settlement is confined. What the suggestions do envisage in a positive manner is a modification of the present system in order to ensure (a) a lower burden on the payer of land revenue in the event of the prices going down and (b) a larger revenue to Government in the event of the prices going up. This is sought to be brought about by a sliding scale of revenue correlated to prices. The scale is to be applied and the assessment reduced or increased every year or every two years, but not at much longer intervals.

(iii) There is a third context, one arising from certain measures taken by various State Governments, in which both the present burden of land revenue and the relation of land revenue to the prices of different crops become relevant. The measures are in the form of surcharges on land revenue. The underlying idea is that, with the system unaltered, larger revenue may nevertheless be secured for Government by levying a State-wide surcharge on the larger assessments or the bigger holdings or the more paying commercial crops. The experiment of surcharges, whether merely at the stage of a proposal as in certain States or already imposed as in certain others, has some points of similarity with the device of sliding scales in so far as that is related to *rising prices*. (The Punjab sliding scale, which we have elsewhere described, is concerned only with falling prices except when prices rise at levels below the commutation prices). Both aim at getting a larger contribution from the higher agricultural incomes made possible by higher agricultural prices. They aim at doing so even during the pendency of resettlement and may, therefore, be said to recognise that the manner and the period of the present guarantee are unsuitable at certain price levels or for certain levels of agricultural income. Moreover, there is no attempt in either case (as there is in agricultural income-tax) to relate the additional levy to ascertained income and to a relatively high income levels. The object, in both cases, is to secure larger revenue *with little or no disturbance of the existing system*, when price and other conditions are propitious for the purpose.

3. The first of the contexts of future policy we have mentioned is that of total replacement of land revenue as being an inequitable levy. The issue of equity is important only if land revenue, at the present levels of assessment, can be regarded as an unduly heavy burden on the majority of farmers. It is all the more necessary to consider this question, as we will do later, since it seems to us obvious that none of the alternatives cited can be an effective substitute for land revenue from the point of view of the finances of

**Proposals to replace
land revenue: agri-
cultural income-tax**

State Governments, though some of the measures suggested, such as agricultural income-tax, may indeed be extremely appropriate as features supplementary to land revenue itself. It is only necessary to recall that in most States, the proportion of the number of holdings under five acres to the total holdings is more than 50 per cent., while those under ten acres account for 75 per cent., in order to realise how inadequate agricultural income-tax would be as a substitute for land revenue, from the stand-point of the revenues of State Governments. To this consideration would have to be added the important development implied in recent land reform policies; those policies will have the effect of further reducing the number of large holdings and, consequently, of large incomes from agriculture. Agricultural income-tax will undoubtedly be significant as making for the greater equity of land taxation as a whole, inclusive of land revenue; it obviously cannot replace land revenue in the sense of constituting a roughly equivalent source of income for State Governments.

4. The more general adoption of a system such as prevails in Travancore-Cochin, whereby certain flat rates of tax on land are combined with the levy of an agricultural income-tax is equally out of the question if viewed as an alternative to the present system of land revenue assessment. There are certain features peculiar to that State—such as the relative homogeneity of the land and of the manner of its cultivation, besides the relative preponderance of plantations from which agricultural income-tax is derived—which may be said to have facilitated the introduction of such a system in the area of the former princely State of Travancore. In its application to other areas, however, where these conditions do not prevail, it is clear that a low flat rate, unless pitched so very low as to involve the sacrifice of considerable revenue, will be inequitable in its operation. As pointed out by the Madras Land Revenue Reforms Committee, 1951, in their second report, “A low flat rate will be inequitable even as between the numerous varieties of dry land. To allow for lands cultivated wet with water from the irrigation sources, we will have to have, any way, a scheme of water charges, besides the basic rate and the (agricultural) income-tax. A flat charge for water would be quite unjustifiable, as not allowing for the importance of the sources of the fertility of the land; and this would be particularly so in the case of the big projects which have been embarked upon on the express stipulation of a certain return with reference to which the water charge has been fixed; and such a flat charge would more pointedly be an even more arbitrary element along with an arbitrary flat rate, and constitute, therefore, an all the more unsatisfactory substitute for the present consolidated assessment; and as it will have to be pitched low, it would mean a considerable reduction on the present total income from wet lands.”

5. The third alternative we have mentioned is a tax on agricultural produce. The position today in most of the States is that the sale by an agriculturist of his own produce is exempted from the sales tax; we have elsewhere recommended that this position should continue, but that a low multiple-point sales tax should be imposed on sales of goods, including sales of agricultural produce, when these take place at a subsequent stage, i.e., when the sale is by a dealer

other than the primary producer. But what we have to consider here is a different proposal, viz., that, as an alternative to land revenue, a sales tax should be levied on all primary agricultural producers when they sell their crops. One of the grounds cited in justification of this suggestion is that the incidence of such a tax, as distinguished from that of land revenue, will be appropriately heavy on the larger landholders, while the small landholder, to the extent his crop is consumed and not sold by him, will not have to bear the tax at all. Whatever the validity of these arguments, there is no doubt about the administrative and financial difficulties which the scheme itself will involve. All agriculturists, except the very small who are exempted, will have to keep accounts of their sales, submit returns and pay the tax at regular intervals. In the majority of cases, the landholder will be incapable of maintaining the requisite accounts; he will, therefore, be at the mercy of the officers entrusted with the work of assessment and is likely to be subjected to a type of harassment which it is one of the aims of the land revenue system to reduce to a minimum. If, for this reason, the exemption limit for the sales tax (in terms of turnover of crops marketed) is pitched relatively high, the loss in revenue will be substantial; while if it is pitched low, there will be a considerable number of small agriculturists on whom the effect of the system is likely to be as we have described.

6. In these circumstances, and particularly in view of the financial needs of State Governments in the context of the implementation of their development schemes, a majority of which are for the benefit of the rural areas, it is difficult to envisage any real substitute for land revenue. The States realise about 70 crores from this source, and no alternative method which has so far been suggested is likely to yield a revenue which even approximates to that figure. This, as we have indicated, makes it all the more important to examine whether by and large the present levels of assessment of land revenue represent an undue burden on the agriculturist.

7. We may now turn to the second and third contexts mentioned above. As we have pointed out, the proposals for sliding scales and surcharges have this in common, viz., that the broad basis of the land revenue system is to remain as at present, but features are to be introduced which either relate the amount of revenue to fluctuating price levels or, on the assumption that the current levels are higher than at resettlement, ensure for the exchequer a large payment from those whose assessments or holdings are above a particular size or whose income may be assumed to have specially benefited from the nature of the crops—cotton, oilseeds, etc.—they happen to have grown. In a sense, both sliding scales and surcharges represent an endeavour to introduce into the land revenue systems an element of responsiveness to changes in prices and incomes, over short periods, which the systems had not been designed to contain as they originated and developed in different parts of the country. It is relevant, therefore, to note here the fact that the fiscal system as a whole has expanded and become diversified and that there are other taxes today—the agricultural income-tax, for example, and more recently the sales tax—which, in a supplementary capacity, can be made use of for purposes for which land revenue may be ill-suited. This

observation concerning unsuitability should not be taken to apply to all categories of surcharges on land revenue or to all types of sliding scale that can be designed for the purpose of roughly relating land revenue to the changing levels of prices. Thus, where assessments in two different areas are very dissimilar, though the areas themselves are comparable in all significant respects, and the disparity in assessment is due to the widely different times at which the areas were settled and re-settled, a special surcharge for equalising the levels of assessment—or at any rate for reducing the disparity between them—would not be open to the same objection as the other surcharges mentioned. Nor would our observation apply to a surcharge on land revenue by a local body for providing local services; and here we may note in passing that a surcharge on the basis of the largeness of the holding or of its assessment, or one related to the nature of the crop grown, would be likely to be more acceptable if locally levied with reference to varying local conditions, and locally utilised for the benefit of the village, taluka or other local area concerned; moreover, such a surcharge would be more justifiable than one super-imposed on a State-wide basis and with a State-wide uniformity of rates and exemptions on the present pattern of land revenue assessments. A further instance to which the criticism of unsuitability would not apply is a sliding scale which aims at making readjustments over relatively long intervals, such as a period of ten years, and over relatively large areas, such as an entire State or one whole homogeneous region of the State; such a device would be materially different from the type we have previously mentioned and could not be described as the introduction into land revenue of a feature which more appropriately belongs to agricultural income-tax. We would emphasise that the actual pattern of land revenue assessments, as this obtains in any particular ryotwari State, is based, among other things: *firstly*, as between different areas, on the chronological accident as to when each of them was settled and re-settled; and, *secondly*, in respect of each area, on the local factors (including prices), and the subsequent variations in those factors as adjudged at settlement and revision. It is to this pattern that a State-wide surcharge would be related; and it is in the context of the same pattern that the taluka-wise sliding scale would, from year to year, further vary the assessment on the basis of local changes in prices. At the same time, both surcharge and sliding scale, as we have indicated, are essentially based on the perfectly valid idea that, when prices go up or down as much as they have in the last two decades, some increase of land revenue or decrease in its burden are called for from the points of view of the Government and the landholder. The difficulty is that of fitting the idea into the system; a difficulty, moreover, which cannot be solved by the heroic remedy of replacing the system itself; for that, as we have seen, is wholly impracticable. The issues which thus emerge are such as need to be considered in the light of the basic features of the land revenue systems and of the manner in which those systems have operated at different price-levels and of different degrees of fluctuation in those levels. For reasons we shall presently mention, such an examination—in relation to the unit of resettlement for example, which still remains the taluka, or to the main factor at resettlement which continues to be the variation in local prices—is particularly important in the context of what may be described as the ryotwari system.

3. The system of land revenue settlements as it developed in ryotwari States like Madras and Bombay is among the more notable achievements of British rule. That system is on trial today. It may be said to have been on trial ever since the depression of the thirties. Whether it can be adapted to the increasing needs of the exchequers of the different States, the changing pattern of the country's agricultural economy, and, in particular, the more frequent and more violent fluctuations in agricultural prices that have been a feature of the last three decades, are issues of very great importance in the determination of future policy. The question is of more than usual significance today because of the land reforms which are in the process of introduction or implementation in the 'Zamindari' States, *i.e.*, in those areas in which land revenue was in the past settled, either on a permanent basis or for a definite period, with persons who were intermediaries between the occupant and the State. In all these areas there is now taking place a transformation of tenure from zamindari to ryotwari, and from permanent settlement (where that existed) to settlement for a temporary period. The major diversity in the land revenue systems of India, therefore, to the extent that such diversity was based on a fundamental difference in tenures, is now fast coming to an end. The country-wise pattern that is evolving is that of the ryotwari tenure and of land revenue settlements conforming to such tenure.

9. Undoubtedly, there will be a number of transitional stages to be traversed and transitional problems to be solved. Thus, for a period which may be comparatively long as in Uttar Pradesh, or relatively short as in certain other States, 'rent' may be collected from the occupant, instead of 'assessment' in the normal sense; in other words, the levy by Government may be analogous to the older levies by the zamindar rather than to the assessment levied in ryotwari States. Eventually, however, assessment will have to be fixed in one or more of the ways obtaining in the ryotwari States, and the systems which will develop will, therefore, broadly be of the type that has been evolved in one or another of the major ryotwari States. Another transitional problem will be that of the large tracts that are still unsurveyed and unsettled in many of the Part B States as also in certain areas of the Part A States, including some of those talukas of the princely States which are now merged in Bombay, Madhya Pradesh, Orissa and other former 'Provinces'. Here too, after the initial process of survey and classification, the problem will arise of re-fixing the present *ad hoc* assessments on a more scientific basis, guaranteeing their duration and deciding on the manner in which resettlement shall be done when it becomes due. A third set of factors calling for interim solution will be the differences in level of assessment between the different areas now brought together under the administration of one State Government, whether this has happened in a "union" of former princely States, as in Rajasthan and Saurashtra, or through the merger of new areas in one of the older 'Provinces' now constituting the Part A States. Here a process of assimilation of rates will be inevitable, if only to the extent of eliminating the more glaring disparities between different assessment levels.

10. Thus, two of the major events of the last few years, viz., land reforms and integration, have had one common affect, namely, that of tending to bring the basic structure of land tenures, and in relation to them of land revenue, into very substantial conformity with the pattern which existed in the ryotwari States. A common problem of all-India importance, therefore, is the future of the periodical ryotwari revenue settlement. As we have indicated, the smooth course of that system may be said to have ended during the depression of the thirties. Ever since then, there has been the phenomenon of State Governments postponing the revision of settlements, where the revision had already become due. In the particular price situation which had supervened, there was in effect a dislocation of the assumptions on which the system of settlement, and in particular the scheme of resettlement, is based. Those assumptions include the continuance of a more or less stable price level over a relatively long period, usually 30 years. It was this very assumption that was thrown open to doubt by the depression. The prices to be taken into account for re-settlement would have had to be those of the pre-depression years; these had visibly collapsed and the Governments considered it impracticable to proceed with operations which might imply for the cultivator a level of assessment which at the time was bound to appear to him to be wholly unjustifiable. The opposite situation of inflation, which came about in the forties, had again the same effect on the prospects of carrying out re-settlements already due. Any revision of settlement at that time would have had to be related to the much lower prices of the period of depression; it would therefore have involved, for the next thirty years or so, a much smaller revenue for Government than might have resulted if the prices could be assumed to remain at a high level.

11. Just as the depression gave rise to the sliding scale experiment of Punjab, so inflation, and its accompaniment of higher agricultural incomes, may be said to have given rise to experiments with surcharges. In either case, as we have pointed out, the idea was to continue the system of re-settlement as it was, but by these devices to ensure either a smaller burden for the occupant when prices went down, or a higher revenue for Government when the ability to pay could be said to be greater. But the assessments themselves were, in the circumstances stated, different for different areas. Taken as a whole, they failed to conform even broadly to the prevailing price conditions; individually, there was much disparity between one area and another. This was inevitable because the original settlements and thereafter the resettlements took place at different periods and therefore in relation to different price levels. The main stress under which the orthodox revenue resettlement has tended to break down has, therefore, been the stress of price fluctuations.

12. At the same time, as we have said, the orthodox ryotwar settlement is of more than usual significance today; all the other systems are tending to converge to it, and the future of the ryotwari settlement may be regarded as the future of the land revenue system of India as a whole. We may briefly recall certain features of this type of settlement as it has developed in the major

ryotwari States, such as Madras and Bombay, with which in this context may be classed the mahalwari State of Punjab.

There are first of all the operations of 'survey' and 'classification', and along with them of 'settlement'. The survey consists in mapping out the village as a whole and then the individual plots of occupants, physically demarcating the boundaries of different plots, preparing a 'record' for each such plot or holding, entering therein the rights which different persons have in the piece of land and so on. The operation is obviously one basic for the revenue administration of the village. Through it comes into being the 'record of rights' which serves as the basis for settlement of disputes and for collection of land revenue from the person responsible for its payment; and the record has the further importance that it contains data valuable for a number of important policies of Government. The other operation, *viz.*, classification, is more intimately connected with the fixation of assessment itself. Factors such as quality of soil and availability of water are gone into in great detail and data collected for the gradation of the land in relation to the standard of assessment adopted. Along with survey and classification goes the settlement itself; and this consists in the settlement officer enquiring into a number of factors germane to the fixation of the different levels of assessment. Thus, rent statistics are collected, nearness to markets is gauged, facilities of trade and commerce determined, and a number of other considerations brought under review which would be relevant for fixing the level of assessment. Assisted by his trained staff, the settlement officer has to visit all, or nearly all, the villages of the particular area settled. The combined operation thus takes a fairly long time. It is obviously not one which, within the resources of trained personnel available, can be undertaken simultaneously in more than a few districts or talukas. This was so even at the best of times in the more leisurely past; and, from the point of view of availability of trained revenue personnel or of the scope to leave them free to concentrate on this important work, the present is obviously not the best of times. It follows that settlement operations have to take place over a long period of years before they cover the whole State. The resettlement is normally undertaken towards the close of the period of guarantee. This period, as we have said, is usually 30 years. The officer in charge of the revision of the settlement does not have to traverse the whole of the ground the settlement officer did; nevertheless, he has in turn to investigate in detail the changes which took place in the particular factors which had been taken into account at the time the assessments had been last fixed. He has usually to visit in person not less than half the villages. Nearness to markets, facilities for trade etc. have again to be reviewed. Among the more important factors he has to consider is the level of prices. This too is related to the local area with which he is concerned. With reference to the important crops of the area, his task is in effect that of forecasting the price level of agricultural produce as it will prevail over the next three decades. He therefore takes into account the relevant prices, as they obtained before resettlement, for a period of five or ten years or for other varying periods, as prescribed in the different regulations of different States. This forms the basis of his forecast; and he relates it, for the purposes of refixing assessment, to the corresponding price levels taken into account at the time of the previous settlement. The

operation is elaborate, though not as elaborate as settlement. Moreover, as we have pointed out, the availability of trained revenue officers is more restricted than before, and their other official preoccupations more multifarious than ever. For much the same reasons, therefore, as apply to settlement operations, the process of resettlement has itself to be spread over a number of years in terms of covering the whole State.

13. Some of the main considerations underlying settlement and resettlement may now be summed up:

(1) It is the practice for each small area, usually a taluka, to be taken up by itself for settlement or resettlement. A considerable number of years must necessarily elapse before the whole State is covered. The system is based on the assumption that it does not matter a great deal if different areas are settled or resettled at very different periods.

Certain assumptions of the present system

(2) It is a further assumption of the system that local prices, their levels and fluctuations, are matters for special and elaborate investigation, and that neither levels nor fluctuations could be taken to correspond to those which pertain to wider regions.

(3) Factors other than price, such as nearness to markets, state of communications, etc., are assumed to be important enough to be investigated in detail in fixing or re-fixing the levels of assessment.

(4) Since the forecast of prices on which settlement rates are based pertains to a relatively long period, usually covering three decades, there is also the important assumption that there will not be violent fluctuations in those prices over that period, and that, even if there are any, they will be confined to a few years of famine or scarcity. Such fluctuations, it is assumed, can be adequately provided for by a system of remissions and suspensions.

Thus, settlement and resettlement are essentially an operation for a small unit over a long period with price as only one of the many considerations involved. For purposes of future policy, however, we must distinguish between the original settlement and the subsequent revisions of that settlement. The initial settlement, including in that term the combined operations of survey, classification and fixation of assessment, has obviously to be undertaken separately for each of the units which, for whatever reason, happen to be still unsurveyed, unclassified and unsettled. Though the total process can be expedited by diverting to it a larger body of trained personnel, each part of the process will be necessarily in terms of small units of the State; this is inevitable unless settlement itself is to be dispensed with; and, far from its being possible to dispense with it, the need today is to introduce and complete the operations of survey, classification and initial fixation of assessment in large tracts of the country where they have not so far been undertaken. But resettlement stands on a different footing altogether; and two questions of great importance are whether, as hitherto: (1) resettlement too should be confined to a small unit and (2) the rates of resettlement should be guaranteed over three decades. These questions will be further considered. Meanwhile, it may be noted, not only of past settlements, but also of past resettlements that, apart from the important advantages these conferred in terms of better administration of the area covered by

the settlement or resettlement, the additional revenue consequent on each such operation was usually large enough to warrant the considerable expenditure of money and administrative effort which went into it. But, as we have indicated, the suitability of the system as a whole, and especially of that part of it which consists in resettlement, has now to be adjudged with reference to conditions which differ radically from those which prevailed before World War I.

14. It is in the total context which we have outlined at some length in the foregoing paragraphs that it is now necessary to draw attention to certain changes which have taken place in the significance of land revenue over the long period of its history. Among the aspects to be briefly considered are: land revenue as a burden on the person who pays it, the place which land revenue occupies in the composite fiscal pattern of the country, and the general level of land revenue in relation to the levels of agricultural prices. As already indicated, it is only in the broadest outline that an account of these need here be attempted.

15. The place of land revenue in the economy changed with the changing character of the economy in the nineteenth century. Progressive monetisation, the development of internal transport, the growing commercialisation of agriculture, and the general evolution of an all-India market with the steady support thus provided to local prices, all these served to lighten the burden of land revenue as the decades passed. In the period between 1890 and the beginning of the First World War, the process of commercialisation of agriculture, using the term in its broad sense as denoting monetisation of the economy, was carried farther. Rail mileage almost doubled over the period, there was a substantial increase in the currency issue, and the area under commercial crops, oilseeds, jute and cotton expanded still further. Though the absolute area under commercial crops was still relatively small, these crops were of great significance as leading to the monetisation of the rural economy to a much greater extent than food crops.

16. These changes led to price rises. Foodgrains prices were in 1891 about a third higher than in 1873; and in 1912, prices were again a third higher than in 1899. When price changes are taken into account, the level of land revenue would appear to have been fairly steady over the period. If land revenue receipts are expressed in terms of foodgrains and written as an index with 1873-100, the index figure for the decade 1873-82 was 89; for 1883-92, 94; for 1893-1902, 92; and for 1903-1912, 84. It is reasonable to conclude, therefore, that land revenue enhancements during the period were of a relatively moderate nature. The First World War led to a sharp rise in prices. The level of foodgrains prices was doubled. This led to a substantial reduction in the burden of land revenue. During the decade 1920-29 the land revenue collected after adjustment for the rise in foodgrains prices was substantially lower than in the pre-1914 period. In 1929, however, foodgrain prices started declining as a result of the depression. Expressed in terms of constant prices, the burden of land revenue was perhaps two-thirds higher during the

TABLE 4.—*Share of land revenue in total tax revenue of Part A States (formerly Provinces)*

Year ending March	Total tax revenue (excluding shared taxes (Rs. lakhs)	Land Revenue (Rs. lakhs)	Col. 3 as percentage of Col. 2
(1)	(2)	(3)	(4)
1922	62,80	34,39	54·8
1927	68,55	34,44	50·2
1932	60,31	32,61	54·1
1937	59,85	31,67	52·9
1942	60,99	27,70	45·4
1947	1,33,28	30,96	23·2
1952	1,62,65	33,05	20·3
1954	1,86,59	49,64	26·6

NOTES — (1) The figures up to 1937 include Burma.

(2) The figures from 1948 relate to Part A States in the Indian Union.

The rise in the importance of land revenue in the last year has already been explained as being due to technical factors. The above table shows that the main exception to the peculiar downward trend was the period of the depression in the thirties. Before then the land revenue system would seem to have worked fairly well; in the absence of a violent downward movement of price it could, in broad terms, be said to have operated in a manner not unfair to the cultivator.

18. As we have indicated, the new forms of taxation which are now being developed can, to some extent, fulfil the function of levying a larger contribution from the better placed agriculturist, the one, for example, who grows specially profitable crops. Further, the agricultural income-tax, as we have pointed out, can be used as an instrument for maintaining equity through the imposition of a higher burden on the large incomes from agriculture. But one anomalous feature to which we have drawn attention is the variation of burden between lands of the same type arising from the fact that settlements and resettlements were, for different small units, undertaken at different periods. While, on the whole, all agriculturists benefited from the steady rise in prices, it also happened that at any given moment, those whose lands had been settled or resettled in one of the earlier periods bore a lighter burden of assessments than those who paid the later assessments. Disparities of this type have been accentuated by postponements of resettlement as a result of the depression and the War. They can be minimised by a readjustment of assessments in relation to the dates of resettlement (or, more accurately to the periods taken into account at resettlement

for fixing the price levels on which, among other things, the revision is based). The movements in prices have been such that a certain degree of readjustment of this kind is necessary on grounds of equity.

19. Assuming that such readjustment is decided upon, it is not necessary that the collection of price data for the purpose should go down to very small geographical units. Experience has indicated that it is the broad change in the price level which have been significant in relation to the burden of land revenue. Moreover, it is these long-term trends that are seen to be important even if a fairly wide area is taken as the unit. With the widening of markets for agricultural products, the prices in various centres have become fairly closely related to one another. While it cannot be said that the price obtained by the agriculturist in every area corresponds very closely to the prices in the main marketing centres of the State, it can reasonably be assumed that the range of variation is not wide. It is of interest, in this connection, to note that the Madras Land Revenue Reform Committee considered that the presidency average prices of "first and second sort paddy" served as a sufficient basis for the application of a sliding scale of assessment. The Committee was of opinion that local price variations and the varying price movements for different food crops might be ignored for this purpose. "A scrutiny of the table of prices, and the graphs of prices, indicates that the movements of prices of paddy, ragi and cholam are similar over the entire period under consideration. When the price of paddy starts rising, the prices of ragi and cholam also follow in its wake; when the price of paddy starts falling, prices of ragi and cholam start falling in its wake. The price index of paddy alone should, therefore, be an adequate standard frame of reference. Here again, there are two sorts of paddy, first and second sort, and it would, in our view, be more satisfactory to take the average price of first and second sort paddy. There would be minor variations in district prices depending upon local factors and the situation in the adjoining areas, but it would not be necessary to allow for all these in the scheme which we propose. Such local differences will get ironed out because we are thinking of alterations only when the changes in price-levels are considerable."* Studies of regional price movements in other parts of the countries, over a long period, also confirm the general conclusion of the Committee in regard to the broad conformity of price movements with the trend of prices of the principal foodgrain cereals.

20. It is, of course, true that local factors other than price may sometimes be of significance. There may thus be local famines. But an elaborate procedure exists for meeting such situations through the grant of suspensions and remissions through the execution of public works and so on. Undoubtedly, special local situations may call for special remedial action; but so far as the changing burden of land revenue is concerned, the preponderant factor all the time is the fluctuating general level of prices. To quote the Madras Committee again, "Although, in theory, many factors were taken into consideration, in actual practice, the enhancements were based mainly on the enhancement in the value of the produce, and in view of that, the

*Report of the Land Revenue Reforms Committee, Madras, page 33.

time and labour spent and the expenditure incurred over the other elaborate enquiries attendant on resettlements become unnecessary."

21. The above examination of some economic aspects of the evolution of the land revenue system has necessarily been brief and illustrative. Both administrative and economic considerations point to the need for certain modifications being made in the present system. The changes we suggest form the subject of the next chapter.



CHAPTER V

FUTURE PATTERN OF LAND REVENUE AND AGRICULTURAL INCOME-TAX

Recommendations

Since they provide the framework for our recommendations, it will be useful to draw attention to certain considerations which emerge from the foregoing chapters and at the same time to indicate the main lines of our recommendations.

2. First, it is obvious that in many matters of important detail, arising out of past history or related to local conditions, there is bound to remain a justifiable diversity in the land revenue features of different States. In other and more basic matters, it will be both advisable and feasible to aim at a minimum degree of uniformity in the policies pursued by the States. Some of these items are: nature of tenure, manner of initial fixation of assessment, the broad method of revision of assessment and the limits of increase or decrease within which it will operate, the place of land revenue *vis-a-vis* local bodies, and the place of agricultural income-tax *vis-a-vis* land revenue. In so far as a substratum of common policy on these and other matters of similar importance may be said to constitute a basic pattern of land revenue, we conceive it to be our function to suggest the broad outline of that pattern for the acceptance of States; it will then be for each of them individually to fill in the details.

3. Second, for the reasons we have already mentioned, we believe that the convergence to a broad common pattern, in which individual differences are accommodated, is already discernible in recent developments. The trend itself has been made possible by many circumstances: the integration of the country, the land reforms that are in progress and, not least, the many common problems which, under the stress of price fluctuations, the present systems of land revenue have set to all the States.

4. Third, we think that the basic pattern of settlement and revision, while largely similar to the existing ryotwari pattern, should make a departure from it in significant respects. It is especially important that revision of settlement should be divorced from small units and local prices and be based instead on the State or, within the State, on homogeneous regions. For this purpose, existing disparities of assessment should first be corrected, within set limits and to the extent practicable, with reference to a criterion that can be applied on a State-wide basis. Thereafter, at the 'standardised' level which the assessments then assume, they should be revised for the State as a whole or for the regions, at intervals which are neither unduly short nor unduly long. Each such revision, whether upward or downward, should again be within strictly defined limits and should be effected with reference to an adjusted price factor worked out for the whole State or for each of the regions. It follows that where

assessments are *ad hoc* and have therefore to be fixed for the first time on an adequate basis, they should at the very commencement be related to a criterion which is common for the whole State.

5. Fourth, we are of the view that, within the limits set for revision, the 'standardised assessment' should continue indefinitely, that State Governments should not levy surcharges over and above it, and that all surcharges on the standardised assessment should be by local bodies for local services. In other words, we consider that, as a source of revenue for State Governments, land revenue should be "frozen" within the narrow variations of a standardised level of assessment and all further tax contribution from land, in the form of cesses and surcharges on such revenue, should be left for the exclusive use of local bodies.

6. Fifth, we would emphasize that initial settlement is indispensable, and that survey and classification and, on the basis of these, the first settlement of assessment should be undertaken in all areas where one or more of these operations still remain to be conducted. This task is so important and its magnitude so great in so many States that we consider it should be treated as a matter for concerted all-India effort. States most lacking in trained personnel should be assisted by those whose lack is less pronounced.

7. Sixth, we would urge that an agricultural income-tax on the higher agricultural incomes, because of the greater equity it brings into the system, if not of the revenue it brings to the exchequer, should be adopted by all the States which have not yet done so.

8. Seventh, we would postulate that the eventual aim should be to merge agricultural income with non-agricultural income and levy one income-tax, the proceeds being made divisible between the Union and each State in the proportion of the two types of income. This, however, can only be a long-term objective. Meanwhile, as a first step in this direction and in order that agricultural income-tax may be a more attractive source of revenue to States, we consider that the Union should make it possible for the States to levy a surcharge on agricultural income-tax with reference to the non-agricultural incomes of the assesseees.

9. In elaborating these principal features of our recommendations, it will be convenient to deal first with agricultural income-tax and then with land revenue. Our suggestions on the latter subject will be set out under three heads: (i) Basic pattern; (ii) Transitional problems; and (iii) Administrative matters. As one of the main features of the Basic pattern, we will dwell in particular on the Scheme of Standardised Assessment; though included in a separate section of the chapter for convenience of presentation, we consider agricultural income-tax to be no less basic than standardised assessment for the development of a proper system of land taxation.

A. Agricultural Income-tax

10. We recommend that, in all States, all agricultural income about Rs. 3,000 a year should be made liable to the agricultural income-tax. The limit is the same as we have recommended for the non-agricultural income-tax; it also happens to be the one adopted by most of the States which now levy an agricultural income-tax. We will indicate why and how, in our view, certain steps should be taken which will have the incidental effect of adding to the significance of this tax even if it is looked at merely as a revenue measure. But, as already stated, the real significance of the agricultural income-tax lies in the consideration that larger contributions will be secured from the higher incomes from land and, to that extent, the burden of land taxation rendered more equitable than at present.

11. There is another and equally important reason why we recommend that the agricultural income-tax should be adopted by all States. This arises from the fact that agricultural and non-agricultural incomes are, in India, treated as two distinct compartments, State, and Union, for the purpose of taxation, and from the further fact that many States have made no use of their compartment. The anomalies which result are many. One or two may be concretely cited. A big landholder with an agricultural income of, say, Rs. 50,000 pays no more than the amount of land revenue—and that too at a rate which also applies to the smaller holder of land—while another person with a non-agricultural income of Rs. 10,000 has to make, relatively speaking, a much larger payment in the shape of income-tax. Or, to take another instance, a person with an agricultural income of Rs. 40,000 and a non-agricultural income of Rs. 10,000 pays the income-tax on only Rs. 10,000 while another person with an income of Rs. 50,000 from non-agricultural sources alone has to pay the income-tax on his total income. It is true that the distinction and the anomalies cannot be abolished in the very near future; but we see no justification for thinking in terms of their indefinite continuance. We consider that a start should be made towards eventual integration of the two types of income. Before making one or two suggestions in this context, we would emphasize that the first step has in any case to be the taxing of agricultural incomes by all States. At present, only twelve of them do so: Assam, Bihar, Madras, Orissa, Uttar Pradesh and West Bengal among the Part A States; Hyderabad, Rajasthan and Travancore-Cochin among the Part B States and Coorg, Bhopal and Vindhya Pradesh among the Part C States. The rates of levy differ; these are shown in Statistical Appendix 2. Super-tax is levied in the States of Bihar, Madras, Uttar Pradesh, Rajasthan and Travancore-Cochin. The exemption limit in the case of a majority of the States is Rs. 3,000, the free slab being Rs. 1,500. The States of Orissa, Rajasthan and Hyderabad have a higher exemption limit, the highest being Rs. 10,000 in Hyderabad. The rates of tax are also the lowest in Hyderabad. While uniformity in the rates of the agricultural income-tax may be a very desirable aim, it must not be forgotten that the land revenue assessments vary appreciably from State to State. Even with the standardisation of land revenue recommended by us, the disparities in the land revenue rates between different States will

largely continue. For this and other reasons, it will not be practicable to aim at achieving uniformity in rates in terms of the very near future. At the same time, we consider that the rates are unduly low in several States and recommend their being raised to reasonable levels. From the point of view of uniformity, an easier problem is presented by the exemption limit than by rates. We see no reason for this continuing to be different for different States. We are of the opinion that Rs. 3,000 is a reasonably adequate limit of exemption and recommend its adoption by all States.

Anomalies arising from treating agricultural and non-agricultural incomes separately

12. The extension of the agricultural income-tax, as we have indicated, will make the land revenue systems in India more equitable and also help to reduce a major anomaly that the higher incomes from agriculture do not contribute to the exchequer to anything like the same extent as the corresponding non-agricultural incomes. Even where an agricultural income-tax is levied, several anomalies remain such as we have pointed out; we have therefore stressed that the eventual object of policy should be to eliminate the distinction between agricultural income and non-agricultural income for purposes of taxation. As the first step in this direction, we recommend the adoption by all States of a system of surcharges on agricultural income-tax, on the basis of the assessee's non-agricultural income, if any. Such a surcharge would, of course, become applicable only when (i) the agricultural income is above the exemption limit and therefore an agricultural income-tax is levied, and (ii) the particular assessee happens to have a non-agricultural income in addition. For the purposes of the surcharge, an exemption limit may be adopted in respect of the non-agricultural income as well. The surcharge will be on the agricultural income-tax, and the rate of surcharge will, therefore, be expressed as a fraction—so many annas in the rupee—of the agricultural income-tax. To explain the proposal further, we give below an illustrative scale of surcharge:—

Non-agricultural income	Rate of surcharge— annas per rupee of the agricultural income-tax
Not exceeding Rs. 3,000	Nil.
Exceeding Rs. 3,000 but not exceeding Rs. 10,000	Half an anna.
Exceeding Rs. 10,000 but not exceeding Rs. 25,000	One anna.
Exceeding Rs. 25,000 but not exceeding Rs. 50,000	One and a half annas.
Exceeding Rs. 50,000	Two annas.

The slabs of non-agricultural incomes to which the surcharges will be related, and the rates suitable for each slab have to be decided by each State with reference to the relevant circumstances. In fixing the rates, care will have to be taken to ensure that the agricultural income-tax together with the surcharge and the non-agricultural income-tax does not exceed whichever of the following is lower, viz.,

- (i) agricultural income-tax which would have been payable had the whole income—agricultural and non-agricultural—been treated as agricultural, and

- (ii) non-agricultural income-tax which would have been payable had the whole scheme—agricultural and non-agricultural—been treated as non-agricultural.

If, as illustrated above, the scale prescribed provides only for modest surcharges, the two upper limits just indicated would remain purely theoretical, since the agricultural income-tax *plus* the surcharge (*plus* the non-agricultural income-tax) would be well below those limits. One of the advantages of a system of surcharges such as here recommended would be that it will make the adoption of agricultural income-tax itself more worthwhile, even from the revenue point of view, for the State Governments which have not yet adopted that tax. Secondly, the imposition of the surcharge will both necessitate and bring about a closer co-ordination between the State agricultural income-tax authorities and the Central income-tax authorities; we would stress that this is a matter in which the Union should actively help by enabling the practice to be established of the income-tax authorities furnishing the requisite information concerning non-agricultural income to the State authorities in charge of the agricultural income-tax. Thirdly, the process of active co-ordination thus initiated will not only be of present assistance to States, but will be of future significance as a first step towards the acquisition of administrative experience and the creation of administrative conditions necessary for the eventual integration of the two types of income for purposes of taxation. Because we consider that it can only be a long term objective, we are not including integration itself as one of our concrete recommendations; we have, however, stressed the very great importance we attach to it as setting the direction to the relevant tax policies; to this consideration we would add the other important one that, when integration of non-agricultural and agricultural incomes is finally achieved, the benefit to State Governments from the adequate taxation of the agricultural incomes derived in their respective areas will be much greater than at present in terms of revenue. For all these reasons, we would stress the importance of introducing in all States, not only an agricultural income-tax, but also a system of surcharges on that tax with reference to the levels of non-agricultural income. It seems to us that the States have a clear right, in the legal sense, to levy such a surcharge. But it will no doubt be examined whether it is at all necessary, in order to put the matter beyond doubt, to provide in the Constitution that no such surcharge shall be unlawful solely for the reason that it purports to be related to the amount of non-agricultural income.

B. Land Revenue

13. As already stated, our recommendations on land revenue are grouped under three principal heads: (1) Basic pattern, (2) Transitional problems and (3) Administrative matters. Since that will make for the clearer understanding of the proposals, we relate our recommendation concerning the basic pattern, hypothetically, to a State in which the initial settlement (including survey, classification and fixation of original assessment) was completed in the past, and one or more resettlements of different talukas have also taken place at different periods; but in which it further happens that a number of such revisions—due to have been made, say in the

**Arrangement of
recommendations
on land revenue**

thirties and the 'forties—are now pending. In respect of such a State, we put forward the Scheme of Standardised Assessment in the two aspects of (a) Standardisation and (b) Revision. Since it is partly connected with the pattern we envisage, we also deal with the question of apportionment of land revenue to local bodies, both generally and in relation to the standardised assessment. In the second of the three sections mentioned above, we briefly set out our suggestions concerning certain transitional problems of land revenue such as those connected with the introduction of the initial settlement where that has not yet been undertaken or the abolition of Zamindari where that has been completed. The last section contains a few observations on revenue collection and other administrative matters.

(1) Basic Pattern

(i) SCHEME OF STANDARDISED ASSESSMENT

14. We have already indicated that, while survey, classification and initial settlement as evolved with minor differences in many States, must be regarded as indispensable operations, the same cannot be said of revision settlements in the manner in which they have been conducted in the past. Different talukas having been resettled, just as they were also settled, at very different times, and the increase over each previous level of assessment being strictly limited, there emerges an increasing disparity between the resettlement rates of different talukas. It is in this context, as we have pointed out, that surcharges superimposed on the present assessment pattern have the effect of further accentuating the existing disparities. Secondly, in terms of additional revenue, the results of resettlement are not commensurate with the cost of money, time and labour involved in going through all the processes of a regular resettlement. In almost all the States where the lands have been surveyed and settled, resettlements are long overdue and, as can be seen from Appendix B, an immense task will be entailed on the administration if all the resettlements are to be carried out. This task will be in addition to the other and indispensable one of survey, classification and initial settlement which, taking all the States together, is again of very great magnitude. From the point of view of the administrative effort involved, therefore, and of the requirements of trained personnel in connection with that effort, there is a great deal to be said for abandoning the present method of resettlement, assuming that such a course was also otherwise justifiable. Ample justification of this kind, as we have elsewhere indicated, does in fact exist. Local conditions as distinguished from prices, and local prices as distinguished from those over wider regions, have ceased to have anything like the same significance as in the past for the fixation of assessment levels. It seems to us clearly indicated as the proper course of future policy that (a) the present levels of assessment should first be standardised over the State as a whole and (b) the standardised assessment then revised, State-wise or region-wise, at reasonable intervals.

(a) *Standardisation of Assessment*

15. The problem which arises is that of evolving a suitable scheme for standardising the different assessment levels of different areas of the State, settled or resettled at different times. Some of the relevant considerations would be as follows:—

- (i) The process is one of reducing disparities to the extent practicable, and not by any means one of eliminating them. To aim at elimination is neither feasible nor necessary. For example, the prices taken into account on the last occasion the assessment was fixed may be a third of the more recent price levels. It is nevertheless impracticable to treble the assessment so as to bring it into parity with a more recent assessment. A *maximum* increase has, therefore to be postulated. The same applies to reduction of assessment, should the question of reduction actually arise. The decrease would have to be limited to a postulated maximum. It has to be remembered that where assessments are long-standing and lands have changed hands, the different assessment levels have in effect been written into the land values. Besides practical difficulties, therefore, there is enough justification for not attempting to alter the existing assessment levels too greatly in spite of marked disparities between them.
- (ii) Standardisation in the above sense should be State-wide, simple and *ad hoc*. All the talukas or other areas concerned should at one and the same time be individually taken into account for purposes of the operation. The common criterion with reference to which the disparities are sought to be reduced should be capable of ready application. In practice, it will be found that it can only be *ad hoc*. A method which suggests itself as suitable may be explained as follows. It will be true of all the resettlements now overdue that, if the revision was done at the present moment, the result will be an increase in assessment, and that the increase will in almost all cases be of the order of the maximum permissible (usually 25 per cent.). This follows from the very great increase in prices which has taken place after World War II. Every settlement or resettlement is related, in regard to the price levels on which it is based, to a specific period of usually twenty years; this, in other words, is the period for which "commutation prices" have been worked out by the officer in charge of the settlement or its revision. We may term this, with reference to any particular settlement or resettlement, as the "relevant price-period". If, hypothetically, we take a resettlement undertaken and given effect to in 1953, then the majority of the years of the relevant price period (the preceding twenty years) would fall after 1940, a period of high prices. Obviously, there would be no case for increasing such an assessment if, say, the standardisation was attempted in 1955. If, however, the majority of the relevant years fall in the period 1920—39, and even more if they fall in the years 1880—1899, there would be a case for increase. In other words, it happens to be true that,

soil in the area under irrigation, there is no other reason for lumping land revenue and water charges together. This practice has, however, been discarded on all new works, and an examination of this system has, therefore, no practical significance except with reference to a few old projects.

4. *Differential rate*.—Another system of water charge, which has been condemned as unsound in theory and extremely clumsy in practice by the Taxation Inquiry Committee, is the differential rate system adopted in some of the older works in Andhra and Madras. The principle, here, is that when a dry land is irrigated from Government sources, the water charge should correspond to the difference between the wet rate and the dry rate of assessment of the corresponding land. The advantage claimed for the system is that it provides for a charge commensurate with the yield of the land. It avoids the drawbacks of a system of fixed water rates under which the same rates are charged for all lands alike, irrespective of the net profits of irrigation, merely because the lands happen to be irrigated from the same source. The system, however, involves a large number of complicated calculations which would not be easily comprehended by the village officers, nor be intelligible to the cultivators. There are other administrative difficulties in so far as the system gives rise to a large number of money rates rendering proper preparation of accounts and checking difficult, if not providing some scope for malpractices. Finally, its applicability is limited to areas of which proper soil classification has been made. In view of these difficulties, there has been an increasing preference for a fixed rate system under which the water charge is fixed on a flat rate basis and varies only with such considerations as the nature of crop grown, category of irrigation facility, etc.

5. *Occupier's rate*.—A system that is in general operation over the greater part of the country is one where the charges are related to the nature of crop or class of crop and are fixed for the area actually irrigated. The rates for different crops are based mainly on these considerations:

- (1) quantity of water normally required by the crop;
- (2) the scarcity or abundance of supply at the time; and
- (3) value of the crop.

Concessional rates are provided in respect of certain crops, e.g., fodder crops. There is, however, no variation in charge according to the distance of the land from the head of supply, its productivity or its value. An objection usually raised against this system is that it is not conducive to economy in the use of water. Moreover, under conditions of competitive demand, it fails to secure optimum revenue to Government.

6. *Agreement rates*.—While the principle of 'no water, no charge' is generally observed, agreement or lease systems of water rates have come to be adopted on certain works as a result of local conditions and requirements. In the deltaic regions of Orissa, West Bengal, parts of Bihar and Madhya Pradesh where climatic conditions render it very doubtful whether the cultivator will in any particular season take water for his field or not, attempts have been made to induce him to take a lease for a period of years. For instance,

(b) *Revision of Standardised Assessment*

16. Once the assessment levels have been standardised in the manner described above, we are of the view that land revenue should be revised once in ten years with reference to changes in the price level. Obviously, the period of revision cannot be as long as the present 30 or 40 years. Many of the difficulties which have arisen and much of the inelasticity of land revenue receipts may be traced to a period of guarantee which, in changed price conditions, has proved to be unduly long. Nor, for equally obvious reasons, can the period be too short. If the assessment is to be revised annually or biennially, much hardship and great uncertainty will replace the relative fixity and stability which now characterise the land revenue system. We consider that by way of a suitable compromise, the periodical revision should hereafter be undertaken decennially in terms of the standardised assessment. Moreover, the method of revision adopted should be such that it can be carried out more or less automatically on the basis of the price levels without the intervention of an elaborate administrative machinery operating on small units over long periods at disproportionate cost.

17. We may now consider some of the points which have to be taken into account in a scheme for adjusting land revenue to price changes. It will obviously not be justifiable to take the price rise or price fall at its full face value and raise or reduce assessment in proportion to it. In the first place, moderate fluctuations need not be allowed for at all. Secondly, even when appreciable variations take place, it would not be right to raise or reduce the demand proportionately, for the significant factor in determination of the incidence of the land revenue demand is the change in the net income or net produce or profit of the cultivator and not the value of his gross produce. In other words, cost of production is as relevant as price of the produce. But few things are so difficult to gauge as the India cultivator's cost of production; hardly any studies exist which claim to have done so with sufficient accuracy; and it will be unrealistic to base a scheme on the expectation that detailed and dependable enquiries into cost of production will be conducted in each State, for the whole State, and year after year. Something much simpler would have to be devised. Since changes in costs of production normally occur in the same direction as changes in prices, a practicable method would be to base the adjustment on a *fraction* of the price change. This would be particularly suitable during a phase of rising prices. A third consideration remains to be mentioned. In any such scheme, there must be ample margin in favour of the cultivator; the degree of safeguard for him, in the event of a fall in prices, for example, should be greater than that for the State's revenue, should there be a rise in the price factor.

18. Certain other questions arise in framing a scheme for the revision of land revenue on the basis of price changes. Firstly, over how large an area and in respect of what particular commodities should the prices be maintained for the measurement of price changes? Secondly, what should be the relevant periods, *viz.* the 'base period' with reference to which the change in prices is taken to occur and the 'current period' with reference to which the order of the change is thereafter measured?

19. The first point refers to the composition as well as the range of the price-index that should be employed for the measurement of price changes. As regards the composition, ideally, a price-index should reflect the variations in price of the commodities produced on the individual holdings assessed; even in respect of an individual holding there would be changes in the crop patterns between two periods and consequent difficulties of exact measurement of the degree of price changes. Such precise accounting is obviously neither practicable nor, in the present context, necessary. As observed above, it has been found from a study of past price changes that the changes in agricultural prices in a region generally follow those of the main foodgrain cereal of the region. This applies particularly to other foodgrains in general, though there may be significant disparities at times in respect of individual foodgrains. Prices of commercial crops have been observed often to follow a distinctly independent course. Since, however, eighty per cent. of the area under cultivation in the country is under foodgrains, it will suffice in most cases to base the price index on the main foodgrain cereal of the region. Where a commercial crop predominates greatly, it is the price of that crop which will have to be taken into account; where, however, both commercial and food crops are important, a composite index may be necessary. In the large majority of instances, however, the price index could be based on the predominant crop of the region; while simple to work, this would involve no real sacrifice of adequacy in the context of the broad price measurements with which alone we are here concerned. As for the regional range of the price index, we have elsewhere drawn attention to the greatly diminished significance of local variations in prices. It would suffice to relate the index to the entire area of the State or, where that area happens to be too large, to each of a very few regions into which the State may be divided.

20. The second point refers to the periods, current and base, as between which price changes are to be measured. This may be considered separately for the first revision and the subsequent revisions.

For the first revision of the standardised assessment, the base would be the period of years to the prices of which the standardised assessment is *assumed* to be related. We do not think a hard and fast rule can be laid down so far as this is concerned; we suggest that, in this case, the base should be regarded as a period of not less than ten and not more than twenty years immediately preceding the standardisation. The current period for the first revision would of course be the ten years intervening the standardisation and its revision. This may be concretely illustrated. Let us suppose that the standardisation takes place in 1956 and the revision, therefore, in 1966. Then for the first revision of the standardised assessment, the 'base' period would fall in the years 1936—1955 and would consist of not less than ten years preceding 1955. The current period would be 1956—1965.

The position is simpler for subsequent revisions. For any such revision which is about to take place, the ten years immediately preceding would be the current period, while the ten years preceding the previous revision would be the base. Thus, for the second revision about to take place in 1976, the base period would be 1956—1965 and the current period 1966—1975.

21. We may now outline our scheme of changes in land revenue with reference to price movements. Having regard to the first consideration mentioned in paragraph 17 above, we suggest that a change in prices by 25 per cent. in either direction may be treated as not calling for any adjustment in the land revenue demand. If prices rise by more than 25 per cent., we suggest that increases in land revenue should be effected, as in the illustrative scale given below, from a minimum of $3\frac{1}{2}$ per cent. (one-half anna in the rupee) to a maximum of $12\frac{1}{2}$ per cent. (two annas in the rupee). If prices decline, we suggest that, also as shown in the illustrative scale given below, reductions in land revenue should be effected from a minimum of $6\frac{1}{4}$ per cent. (one anna in the rupee) to a maximum of 25 per cent. (four annas in the rupee). The scale which we have mentioned as illustrating our suggestions is as follows:—

PRICES		LAND REVENUE
<i>Rise in prices</i>		<i>Increase in land revenue</i>
Upto 25 per cent. (4 annas in the rupee)		Nil
Above 25 per cent. (4 annas in the rupee)		$3\frac{1}{2}$ per cent. (half an anna in the rupee)
but not above $31\frac{1}{4}$ per cent. (5 annas in the rupee)		
Above $31\frac{1}{4}$ per cent. (5 annas in the rupee)		$6\frac{1}{4}$ per cent. (one anna in the rupee)
but not above $37\frac{1}{2}$ per cent. (6 annas in the rupee)		
Above $37\frac{1}{2}$ per cent. (6 annas in the rupee)		$9\frac{3}{8}$ per cent. (one and a half anna in the rupee)
but not above $43\frac{3}{4}$ per cent. (7 annas in the rupee)		$12\frac{1}{2}$ per cent. (two annas in the rupee)
Above $43\frac{3}{4}$ per cent. (7 annas in the rupee)		
<i>Fall in prices</i>		<i>Reduction in land revenue</i>
Upto 25 per cent. (4 annas in the rupee)		Nil
Above 25 per cent. (4 annas in the rupee)		$6\frac{1}{4}$ per cent. (one anna in the rupee)
but not above $31\frac{1}{4}$ per cent. (5 annas in the rupee)		
Above $31\frac{1}{4}$ per cent. (5 annas in the rupee)		$12\frac{1}{2}$ per cent. (two annas in the rupee)
but not above $37\frac{1}{2}$ per cent. (6 annas in the rupee)		
Above $37\frac{1}{2}$ per cent. (6 annas in the rupee)		$18\frac{3}{4}$ per cent. (three annas in the rupee)
but not above $43\frac{3}{4}$ per cent. (7 annas in the rupee)		25 per cent. (four annas in the rupee)
Above $43\frac{3}{4}$ per cent. (7 annas in the rupee)		

22. One observation needs to be added in regard to the revision of standardised assessment. As we have said, **Revision in excep-** one of the objects of the scheme here suggested **tional cases** is to obviate the need for the elaborate investigations and other administrative effort associated with the orthodox revision settlement. There are certain residual features of that settlement, however, which will need to continue. These concern the examination and re-fixation of assessment in a certain number of contexts unrelated to the price factor, such as when dry land is converted into irrigated land, irrigated land becomes dry land or land has either deteriorated or become uncultivable through natural causes. The usual administrative machinery will, of course, have to be maintained for dealing with such contingencies.

(ii) LOCAL BODIES AND LAND REVENUE

23. We may first state briefly our main recommendations in this context:—

- (1) Surcharges on land revenue, as standardised and from time to time revised, should be wholly left for local bodies to levy and for local bodies to utilise.
- (2) From land revenue, whether at the present levels or after standardisation and further revision, an amount of not less than fifteen per cent. should be allocated to the local bodies (village panchayats, etc.) concerned, the apportionment being out of the revenue collected in the area of the particular local body.
- (3) If, at standardisation or subsequent revision, an appreciable increase in land revenue results from the operation, as much as possible of the additional revenue should be passed on to the local bodies or be utilised for the execution of local works etc. One way of doing this would be to increase the percentage of the land revenue allotted to local bodies. These suggestions are elaborated below.

24. It will be noticed that our proposals for the standardisation of land revenue do not involve an increase exceeding 25 per cent. in any case. In actual practice, since most of the existing assessments do not date back to the oldest settlements, to which alone the maximum is applicable, the effective maximum increase at standardisation is not likely to be above 12½ per cent. Obviously, if resettlements were now undertaken the increase justifiable would in many instances be larger than under our scheme. We have deliberately proposed relatively low increases in the contexts of standardisation and revision so as to enable the local authorities to utilise the margin. For local authorities like the district local boards and the village panchayats, the main source of revenue is the tax (or cess) on lands. For want of funds, these bodies are finding it increasingly difficult to discharge their functions with adequacy. Accordingly, it would not be proper for the State Governments to take, in the shape of higher land revenue, the entire taxable increase in agricultural outturn resulting from the

rise in prices, without leaving some margin for taxation by the local authorities. Our proposals regarding standardisation of land revenue have been made with this aim and we recommend that this margin of taxable increase in the agricultural outturn should be utilised by the local authorities by levying surcharges on the land revenue assessed by the State Governments. These surcharges would be imposed by the local authorities themselves and the receipts utilised entirely for local purposes. A suitable way of levy would be to relate the surcharges either to the assessment levels or to the nature of the crops grown on the land, e.g., commercial crops, plantations, etc. Minimum and maximum rates of levy could be prescribed by the State Government. We envisage the rates of surcharge as appreciably higher than the rates of levy of land cesses now normally prevalent. When a surcharge is levied by a local body, an existing cess need not, of course, remain a separate entity; it would be convenient to merge it in the surcharge.

25. The suggestion is often made that land revenue should be shared with the local authorities. The Local Finance Enquiry Committee has recommended that fifteen per cent. of the land revenue should be given to village panchayats. The Orissa Land Revenue Committee has gone much further and recommended complete transfer of land revenue to the local authorities. According to this Committee's scheme, a State would be divided into several administrative units and the right of the State to receive land revenue would vest in the community as a whole and will be exercised through the local authorities in those units. The scheme will work in two stages: in the first stage, the local bodies will pay annually to the State Government such proportion of its annual collection as may be determined by that Government; in the second stage, the whole of the land revenue collections will be retained by the local authorities and shared with the village panchayats. We do not think that the suggestion for complete transfer of land revenue to the local authorities has any special merit. For one thing, the State Governments are unlikely, in such an event, to be able to maintain the present level of grants-in-aid to local bodies. The grants-in-aid are likely to be reduced very substantially. Secondly, not all local bodies will benefit adequately, as those in fertile or irrigated tracts will get larger amounts of land revenues than those in other areas, though the financial needs of the latter will in many cases be greater. The proper method, in our view, is to allot a fairly reasonable share of the land revenue as is done at present by certain States, (e.g., Bombay) and supplement this by grants according to the financial needs of each of the local authorities concerned. We recommend that not less than fifteen per cent. of the land revenue collected in the area of a local body should, in all States, be allotted as its share of the revenue to that body. We would emphasise that we regard fifteen per cent. as the very minimum; and even where only this minimum, and no more is allotted, we consider that an increase of land revenue receipts, if this results from standardisation or revision, should be made the occasion for increasing the percentage or for otherwise passing on the benefit to local areas either as general grants to local bodies or as contribution for the execution of specific projects.

(2) Transitional Problems

26. The scheme of standardisation of land revenue can be implemented only in States where the lands have already been surveyed, classified and settled. From Appendix B, it will be clear that there are many Part B States and many merged areas in Part A States where lands are yet to be surveyed, classified and initially settled. It is usually the case that the rates of land revenue in these areas have either continued to be on an *ad hoc* basis from the beginning, or if originally fixed on the basis of a settlement, have later been adjusted on an *ad hoc* basis. From the replies received from many of these States, it seems clear that the completion of settlement operations in all these areas will take many years. We think that with the adoption of the scheme for standardisation of assessment recommended by us, the States where the problems of initial settlement do not arise, should be able to spare their trained staff to the States where such settlement operations are necessary, but the trained staff is lacking. We would emphasise that a concerted effort of this kind, based on the co-operation of the better placed States with those not so well-placed in regard to the availability of trained personnel, is of extreme importance for the early completion of the essential tasks of survey, classification and initial settlement in those large areas in which these operations have not yet been undertaken.

27. We do not consider that it is necessary for us to recommend any particular basis for determining the land revenue at the initial settlement. As indicated in an earlier chapter, the basis of assessment differs at present from State to State. States like Punjab, Uttar Pradesh and Madhya Pradesh adopt the basis of 'net assets'. In certain other States, e.g., Bombay, the basis of assessment is empirical, while in Madras, the basis is 'net produce'. In view of these different systems prevailing in various parts of this country, we consider it to be best that every State which has to undertake the initial settlement, should, unless there are good reasons to the contrary, adopt the basis that is in operation in the adjoining State or area. This would tend to make the assessments of land revenue more uniform in contiguous tracts and to some extent reduce the disparities that would otherwise arise from the adoption of widely differing bases of assessment.

28. In certain States, even though the lands may have been surveyed, classified, settled and sometimes resettled, it will not be possible to implement the scheme of standardisation of assessment unless certain modifications are made in their present systems of land revenue. Some of the States to which this observation applies are Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal. In these States, the rents previously paid by the tenants to the zamindars and other big landlords have, since the abolition of these intermediaries, been by and large converted into land revenue. We consider that, in standardising the assessments on a State-wide basis and revising them decennially as recommended by us, it will be necessary for these States to separate the element of assessment from the rest of the total revenue now collected. Such separation of course would be merely notional, so far as actual recovery is concerned; even so, its import-

ance lies in the fact that it is only with reference to 'assessment properly so called that standardisation and revision can be attempted or surcharges levied by local bodies.

(3) Administrative matters

29. We may now consider the administrative aspect of land revenue, its collection and the machinery for collection. Land revenue is collected in cash. It has often been suggested that collection in kind would be more beneficial to the landholders, particularly the smaller ones. Payment of land revenue in kind may be based on various methods. Two methods which have been put to us are:—

- (i) *Payment in kind on cash basis.*—Under this method, the assessment would be fixed on a cash basis but the payment would be made in kind at the conversion rates fixed at each harvest.
- (ii) *Payment through co-operative marketing societies.*—Under this procedure, the assessee would take the produce to the market and sell it through a co-operative society; the co-operative society would issue the receipt for the payment of land revenue to the assessee and pay cash direct into the Government treasury.

30. Apart from other considerations, there would be many administrative difficulties in adopting the first suggestion. Collection would involve heavier expenditure than at present and Government would have to provide storage and transport facilities on an extensive scale. Further, payment in kind will introduce an element of uncertainty in the actual value of the receipts. The method of collecting land revenue in kind through co-operative societies should be workable, provided efficient co-operative societies are in fact available. But the proposal must remain largely theoretical until the co-operative movement has developed adequately.

31. The present administrative machinery for the collection of land revenue has evolved through years of experience, trial and error, and has on the whole been one of the most efficient instruments of administration. The following reforms are usually suggested in the land revenue administration:—

- (1) abolition of Boards of Revenue and Divisional Commissioner; and
- (2) substitution of the present system of collecting land revenue through hereditary village officers by paid Government servants.

It is urged that the existence of Boards of Revenue and Divisional Commissioners tends to delay matters generally. These are generally supervisory and appellate authorities. In several States, the Boards of Revenue not only serve as the highest executive bodies in land revenue matters but also as appellate authorities in respect of other taxes. Their existence is evidently necessary; if they are to be replaced, it will be necessary to establish Revenue and other Tribunals for appellate work as has been done, for example, in Bombay. As

regards Divisional Commissioners, we note that the Planning Commission says, "There is need for senior officers to whom the new district officer can turn for advice and guidance. In the context of the implementation of the Plan it will be a distinct advantage to have an authority like the Commissioner at the regional level".

32. It has been suggested that the system of hereditary village officers (e.g., lambardars, patels, as distinguished from village accountants) should be completely replaced by an agency of paid Government servants. The point urged in favour of such an agency is that the Government servants would be trained and be able to keep accounts and to increase generally the efficiency of collection. The experiment of replacing village officials by Government servants has been tried in certain States; but in some of them, instead of leading to greater efficiency, it has resulted in slackness in revenue collections. The following extract from the memorandum sent by the Orissa Government is relevant:—

"The collection of land revenue in the period when the Sarbarakar system was in vogue was about 90 per cent. whereas after the abolition, it came down to 64 per cent. on the average. The collection on arrear demand was 100 per cent., but it had gone down to 70 per cent. The Sarbarakar who had a sort of permanent interest in the village and was particular about his prestige, position, status and dignity and was anxious for a good record of service in the interest of his succeeding generations was serving the Government and the people of his village with loyalty. The position has since undergone a change after the introduction of the Naib Tahsildari system. Not only the collection has fallen and local leadership has vanished but Government property, communal lands, village forests, etc., have also practically no protection. So far as collection of land revenue is concerned, the Naib Tahsildar does not show a fraction of the responsibility which the Sarbarakar used to do. On the pain of punishment, he was made to pay the entire revenue, no matter whether he collected it from the tenants or not, but Naib Tahsildar credits just that amount which he is able to collect from the tenants. In the last resort, certificate is the only weapon to collect the arrears. It appears that 30 to 40 per cent. of the total revenue has to be collected by certificate procedure, though as a rule certificate procedure should be resorted to only on rare occasions. But under the management of the Naib Tahsildar the certificate procedure may be the system itself. The magnitude of work thus thrown on the Certificate Office will be considerable. In the ultimate analysis, collection of the arrear revenue is made by peons. The tenant may not, therefore, get a fair deal under this system."

The Madras Land Revenue Reforms Committee, 1950, while recommending the abolition of the hereditary system, has suggested that selection of village officers should be made from among suitable and qualified persons resident in the village and if such persons are not available from among the residents of the village, selection should be made from among other suitable and qualified candidates, subject to the condition that the selected officer takes up residence in the village,

the present terms, emoluments and other conditions remaining unchanged. The Committee did not feel that there would be any difficulty in getting such men, as the posts carry a certain amount of prestige and power and the persons who offer themselves for the post would have either lands in the village or some other local avocation.

33. Another alternative proposed is collection of land revenue **Collection through village panchayats** through village panchayats. It is claimed that these will be able to deal more considerately with the individual revenue-payer than the departmental agency of village officers.

34. We see no objection to the collection of land revenue being **Our suggestions** entrusted to village panchayats wherever suitable, the panchayat getting a commission on the recoveries. In actual fact, however, such a course is not likely to be feasible except in a limited number of instances. Apart from this, we endorse the suggestion made by the Madras Land Reforms Committee that hereditary village officers such as revenue patels and lambardars should be replaced by stipendiary village officers selected from among suitable persons of the locality preferably those holding lands in the villages to which they are appointed.



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CHAPTER VI

ASSESSMENT OF NON-AGRICULTURAL LANDS

We have already seen that where land is used for purposes of agriculture, the return to the State is fixed under the land revenue settlements, having regard to factors such as soil, yield, prices, rainfall, rental statistics, economic conditions of the area etc. But when land is put to non-agricultural uses like constructing a residential building or erecting an industrial plant, the owner of the land gets an unearned increment particularly within or in the vicinity of growing towns and cities. This increment in land values can generally be attributed mostly to the expenditure incurred out of public revenues, either by Government or by local bodies. In order that this increment should be utilized as a source of revenue, the Government of India had, as early as 1879, informed the provincial Governments that there was no reason why land revenue should not be recovered on lands attached to private residences or occupied by buildings on the same basis as upon arable or pasture lands. Further, instructions were issued in 1897 in regard to the assessment of urban land sold or let by Government specifying that where competition existed, the ground-rent should be assessed at full rates and that where other considerations came into play, the ground-rent should be assessed at a rate not exceeding 33 per cent. of the letting value. In 1911, in view of the diversity of the practices obtaining in different provinces of assessing non-agricultural lands and the advisability of securing for the benefit of the community an adequate revenue from the taxation of such lands, the Government of India considered it necessary to prescribe certain general principles for the assessment of such lands. But before it could consult the provincial Governments and settle the principles, the Montford Reforms were introduced and land revenue became a provincial subject. Subsequently, the Government of India did not lay down any general principles of non-agricultural assessment for adoption throughout India.

2. It is important to note that the practice regarding the levy of non-agricultural assessment varies from one State to another. For the purpose of levy of non-agricultural assessment, States in India may be classified into three categories, viz., (1) States having statutory provision regarding the assessment of non-agricultural lands; (2) States having no such statutory provision but levying the assessment under executive orders; and (3) States not levying such assessment. In the first category fall States like Assam, Punjab, Bombay, Saurashtra, Kutch, Mysore, Hyderabad, Bhopal, Madhya Bharat, Bihar and West Bengal. Amongst these States, the provision made in the Bombay Land Revenue Code, 1879, and the Rules made thereunder is the most comprehensive. The land revenue laws of Mysore, Hyderabad and Bhopal follows the pattern of the Bombay Code and the provision for levying non-agricultural assessment, if not equally comprehensive, is essentially the same. Amongst all States it is only West Bengal

which has a special enactment (the West Bengal Non-Agricultural Tenancy Act, 1949) for this purpose. States like Madras, Vindhya Pradesh, Rajasthan and Coorg come under the second category where there is no statutory provision for assessment of non-agricultural lands, but such assessment is levied under executive orders issued from time to time.

No assessment on non-agricultural lands is levied in the States of PEPSU, Travancore-Cochin, Himachal Pradesh, Ajmer-Marwara, Uttar Pradesh and Orissa. PEPSU followed the Punjab land revenue system, which till 1952 had no provision in its Land Revenue Act for such a levy. It has yet to accept the new provision adopted in Punjab for the assessment of non-agricultural lands. In Travancore-Cochin, so long as the basic land tax is levied, such a levy is considered unnecessary. In Himachal Pradesh, presumably because of the hilly and backward character of the tract, no distinction is made in the assessment of lands used for agricultural and non-agricultural purposes. In Uttar Pradesh and Orissa, no specific distinction is made in the assessment of agricultural and non-agricultural lands, presumably because of the existence of the zamindari. For these reasons, the concept and practice of non-agricultural assessment has not yet developed in these States.

Appendix F shows in detail the systems and rates of non-agricultural assessments in force in the different States in India.

3. The assessment of non-agricultural lands in rural areas relates primarily to house-sites occupied generally by agriculturists. In Bombay, all the *gaothan* or village sites, which were at the time of the original settlements used by agriculturists for construction of their houses are exempted from non-agricultural assessment. This practice is, however, not uniform in all States. In the Khurda Khas Mahal of Orissa, the house-sites are not only not exempt from assessment but the rent of house-sites is higher than the rental value of agricultural lands. In the ryotwari areas of the Ganjam and the Sambalpur Districts of the same State, however, the house-sites are free from rent. But when any area is especially declared as urban area, the house-sites are assessed at higher rates of rent. In Bihar, under the Bihar Tenancy Act and the Chota Nagpur Tenancy Act, a tenant can use his land for the construction of his residential buildings including pucca buildings and also for running cottage industries, and the use of land for these purposes is considered to be within the terms of the farm tenancy. Tenants in the urban areas of the districts of Cuttack, Puri and Balasore are mostly *pattadars* in respect of their home-stead lands. In Madras, there are cases where sites are occupied free because they formed a part of the old village *natham* (residential sites). There are also cases where house-sites have been disposed of on more favourable terms as to quit-rent. In Madhya Pradesh, the *abadi* lands in mahals in the old Central Provinces were not assessed at previous settlements. In Berar, no assessment is levied on lands in village sites in villages and towns which are not subject to the *nazul* rules. Under the revenue law obtaining in both the areas, agriculturists are entitled to a free house-site in a village. In towns administered as *nazul* lands in both parts of the States, there are lands which

have been occupied free by the people long before a town was settled and which have been allowed to continue to be held free of assessment.

4. Apart from the residential lands, there are other lands in several States which are either wholly exempt from assessment or subject to quit-rent or old (nominal) rent fixed for a long period. In Bombay, there are lands granted revenue-free for construction of schools, colleges, hospitals, dharmashalas or lands assigned for public purposes such as burial or grazing purposes. Besides, in some cases, non-agricultural assessments have been settled under long leases varying from 30 to 999 years. Further, in the city of Bombay, the assessment is not fixed according to the agricultural or non-agricultural uses of land, but is governed by the special provisions of the Bombay City Land Revenue Act, 1876. The assessment under the Act depends upon the nature of the existing land tenures. In Madras also there is a freehold tenure in plantations, which was created in lieu of a lump sum payment of ground-rent. The Madras Land Revenue Reforms Committee has, however, recommended its abolition. In West Bengal non-agricultural lands are held on a fixed rent or free of rent either under a decree or order passed by a competent authority. The rents of such lands are not liable to enhancement. The Uttar Pradesh Zamindari Abolition and Land Reforms Act, 1950, which makes no differentiation in the assessment of lands used for agricultural and non-agricultural purposes, however, provides for exclusion from the assessment of lands occupied by *khalyans*, grave-yards, groves and buildings which do not constitute improvements.

The above illustrative cases indicate that the Governments' right to levy or enhance non-agricultural assessment has, for certain categories of lands, been limited on account of factors like past revenue history and exigencies of administration during the British regime.

5. The basis of assessment of non-agricultural lands in rural areas differs from State to State. In Assam, the settlement terms usually contain a provision that if the land is used for commercial or industrial purposes the assessment may be revised during the term of settlement: the highest assessment for land diverted to non-agricultural use in rural areas is ten times the agricultural assessment in similar lands. In Bombay, the law provides for the levy of the non-agricultural assessment according as the use is for (a) building or (b) purposes other than building. The villages are divided into two categories and the rules prescribe the minimum non-agricultural assessment equal to the agricultural assessment and the maximum equal to two pies per square yard (or Rs. 50 per acre). Mysore and Hyderabad levy non-agricultural assessment according to the use made of the lands concerned, as in Bombay.

The law in West Bengal does not make any distinction between rural and urban areas in the matter of non-agricultural assessment. The rents for such uses are fixed, having regard to factors like the

existing rent, rents prevailing for similar uses in the vicinity, market value, etc. The rent can be enhanced up to a limit of $12\frac{1}{2}$ per cent. of the previous rent.

Till 1952, there was no provision in Punjab for imposition of non-agricultural assessment; but the Punjab Land Revenue Act, 1887, was amended in 1952 to enable Government to levy such assessment.

6. Different States have adopted different methods for assessing non-agricultural lands in the urban areas. As indicated earlier, Bengal makes no distinction between rural and urban areas, while Bombay has separate provision for non-agricultural assessment in rural and in urban areas. The towns and villages are divided into two classes and the maximum and minimum rates are fixed (*vide* Statistical Appendix G). A special rate higher than two pies per square yard is levied when the land is used for temporary non-agricultural purpose or the land enjoys the advantage of an exceptionally good situation or the use is of a special kind. But where there is a keen demand for building sites, the rates of assessment are fixed on half the five per cent. of the market value of land. These are called the standard rates. In order to stimulate building activity, concessions are granted for payment of five-eighth non-agricultural assessment generally and by way of the non-levy of such assessment for the first three years in the case of co-operative housing societies. If the standard rates are high, there is a provision for a graduated levy of the assessment. In the case of lands used for commercial and industrial purposes, the non-agricultural assessment is leviable at the standard rate or at a rate higher than the ordinary rate. For brick manufacture, the assessment is levied at Rs. 40 per acre and an additional rate of Rs. 2/8/- per every lakh of bricks manufactured. Like Bombay, Bhopal levies the non-agricultural assessment according to the use of land.

In Madras, the ground rent is separately charged for the Madras City and the mufassil towns. In the Madras City, the rent is fixed at a figure slightly below the estimated competitive annual rental value and the occupancy right is sold in auction. In mufassil towns, there are (a) ground rents of the Madras City type and (b) ground rents at a flat rate of Rs. 6/4/- and Rs. 12/8/- per acre. The Madras Land Revenue Reforms Committee has recommended that the Madras City Rules of ground-rent should also be extended to other urban and semi-urban areas in the State.

The Assam Land Revenue Reassessment Act, 1936, divides lands into town lands and non-town lands. The town lands are in turn divided into three main classes:—

- (a) agricultural land (including agricultural residences),
- (b) residential sites, and
- (c) trade sites.

The rates of assessment are not to exceed the rate of assessment of agricultural land by 25 per cent. and 50 per cent. respectively, in the case of the lands at (b) and (c) above.

In Bihar, the urban lands are divided into three categories, viz.,

- (1) for commercial purposes,
- (2) for residential purposes of higher income groups, and
- (3) for residential purposes of lower income groups.

In the area earmarked for commercial leases, the settlement is made by auction according to the highest bid. In the residential area of higher income groups, the settlement is to be made on the basis of a higher standard; whereas in the area for the lower income groups, Government have to fix the fair rate of rent and salami (a lump sum payment).

The Hyderabad law provides for the levy of non-agricultural assessment; but most of the lands within or in the vicinity of growing towns or cities have not been subject to non-agricultural assessment, even though the lands have been extensively built upon. This was presumably due to the existence of jagirs and Sarfe-khas lands of the Nizam. Now that these categories of lands no longer survive, the State can levy non-agricultural assessment.

In Rajasthan, there is no statutory provision for the levy but special rules have been framed for imposition of altered assessment called the 'urban assessment'. Such assessment is not levied in any part of Rajasthan except the Jaipur city.

The Madhya Bharat law empowers Government to grant leases of lands to be used for purposes other than agricultural purposes. The rights and the liabilities of such leases are defined by the terms of the lease. No distinction seems to have been made for rural and urban areas.

7. From the foregoing account, it will be clear that there is a great diversity in the basis and rates of assessment of non-agricultural lands. The annual value is taken as a basis in Assam, gross rental value in West Bengal, freehold value in Madhya Pradesh and Madras, and market value in Bombay. Even in individual States, like Bihar, Bombay and Vindhya Pradesh, we find different basis for different uses. We have already referred to the existence of many and varying rates of assessment in several States. This complexity in the bases and rates of assessment arises out of the past revenue history and different land systems prevalent therein.

8. In the States where the non-agricultural assessment is levied, the rates of assessment are fixed for a certain number of years. In Bombay, the rates are generally guaranteed for 30 years. In Bihar, all leases of lands for buildings and commercial purposes are revisable at the end of 30 years and the rent can be enhanced subject to the maximum of double the rent fixed. In Madhya Pradesh, the leases of the *nazul* lands are renewable at the end of 30 years and the ground-rent is liable to be revised at each renewal. The ground-rents in Madras are, however, subject to revision at the end of ten years. In Assam, the rates of revenue for the town land (based on the annual value of the sites) are guaranteed for a maximum period of 30 years. In West Bengal, the rent of a tenant, once it is enhanced by a court

or under the terms of a contract, cannot be further enhanced during the following fifteen years.

In short, the periods of re-assessment of the non-agricultural lands vary from 10 to 30 years generally.

Recent trends and developments 9. After the enactment of laws for the abolition of the zamindaris, jagirs and other special non-ryotwari tenures, the State Governments have turned their attention to revising the existing land revenue laws or framing new ones where none exists. This tendency is particularly noticeable in some States, e.g., the State Governments of Rajasthan, Madhya Pradesh, Delhi and Vindhya Pradesh have recently sponsored legislation on this subject. These legislative measures, *inter alia*, provide for the levy of non-agricultural assessment. The Rajasthan Land Revenue Bill, 1954, provides for the levy of non-agricultural assessment when agricultural land is put to non-agricultural use and for special rates in lieu of revenue or rent for the urban areas. Similar provision has been made in the Delhi Land Reforms Act, which was passed recently.

The Madhya Pradesh Act, 1954, which consolidates and amends the law relating to land revenue, similarly provides for the assessment of non-agricultural lands in urban and non-urban areas. In the non-urban areas, the assessment of non-agricultural land is not to exceed 33 per cent. of the estimated rental value of land and is to be guaranteed for a period not less than 30 years. As regards the assessment of lands in urban areas, the lands are to be formed into blocks for industrial, commercial, residential and such other purposes. The standard rate of assessment for residential purposes is to be one-third of the average annual letting value and for industrial or commercial purposes one-half of the said value. Such rates are to remain in force for ten years.

The Vindhya Pradesh Land Revenue and Tenancy Bill, 1953, as it emerged from the Select Committee in September 1954, provides for assessment of urban land at special rates. Provision is also made for exempting from assessment of land revenue certain categories of lands such as market and village sites, permanent threshing floors, grazing grounds, grave-yards, cremation grounds, etc. Lastly, every tenant, agricultural artisan or labourers and every village chowkidar is made eligible to a rent-free house-site in *abadi* not included in any urban area.

Apportionment of the proceeds 10. In Bombay and Madhya Pradesh, a part of the receipts from the non-agricultural assessment is handed over to the local authorities on the assumption that increased return from the land is partly due to the amenities provided by the municipalities. In Bombay, 75 per cent. of the non-agricultural assessment is given as grant-in-aid to the municipalities. In Madhya Pradesh, four-fifth of the receipts from nazul revenue excluding premia on sales are paid to local bodies after meeting the cost of administration.

Recommendations 11. From the above analysis, two facts emerge. Firstly, the principles and practices regarding non-agricultural assessment are mainly based upon the use and the value of land. Secondly, the majority of the States have not given

adequate attention to the taxation of unearned income derived by lands put to non-agricultural uses. The assessment of such lands at rates higher than those for agricultural lands is wholly justifiable since the increase in value of non-agricultural lands is generally not due to any expenditure or effort on the part of the owner, but arises because of the growth of population, the extension of towns, the introduction of railways, the provision of civic facilities and so on. We see no reason why States which have not developed this source of revenue so far should not now do so. We recommend that in such cases a regular system of assessment of non-agricultural assessment should be introduced on the lines of the system prevailing in States like Bombay.

Non-agricultural lands are of different types: those used for the construction of buildings and factories and those used for other purposes like manufacturing bricks. We are of opinion that the assessment will have to differ according to the use to which the land is put. On lands used for constructing buildings and factories, the assessment will have to be related to the market value of the property, and where this is not feasible, to its annual value.

Apart from the diversity in basis and rates of assessment, there is no uniformity in the term of settlement. A long term assessment is likely to involve either loss to Government or hardship to the owners. As the market values of lands fluctuate from time to time, it is advisable to fix non-agricultural assessment for a reasonable period—neither too short nor too long. We therefore recommend that the land revenue laws should provide for periodical revision of the rates fixed.

In several States, the building sites in village *abadis* (sites) are exempt from payment of any assessment either wholly or partially because of the customary usages and practices. We are of opinion that it may not be expedient to disturb the century-old practice and subject such sites to assessment. We, therefore, recommend that the present exemption of the village sites from payment of assessment may continue as hitherto with a view, firstly, to develop them and, secondly, to enable the village panchayats to realise some revenue from those sites.

In old towns and cities, where there are certain areas held as wholly or partially free from assessment, agricultural or non-agricultural, these alienations of land revenue were necessitated on historical or contractual grounds. After independence, as we have elsewhere noticed, several such alienations in the rural areas, pertaining to agricultural land have been abolished by State Governments. We recommend that, as a rule, such concessions of land revenue should be withdrawn in the urban and the semi-urban sectors as well with reference to both agricultural and non-agricultural uses of land.

We have carefully considered the question whether it is desirable to make some concessions in the case of revision of ground-rents in localities used for residential purposes by persons belonging to lower income-groups. We are of opinion that no special concessions are called for.

We have noticed that some States at present prohibit conversion of agricultural land to non-agricultural uses and if the use is altered without the permission of the Collector, a fine is imposed. We recommend that the system of levying penalties in lieu of or in addition to non-agricultural assessment should be discouraged and replaced by a regular tax on non-agricultural lands.

As in the case of the assessment of agricultural lands, there should be provision for the grant of suspension and remission of non-agricultural assessment in times of distress, when buildings are affected by fire, floods, storm, etc., and become uninhabitable or when construction is prohibited for security reasons.

Lastly, in some States, a part of the receipts from assessment of non-agricultural lands is assigned to local authorities. As the receipts are largely realised in urban areas, it is but appropriate that municipalities should benefit financially from any increment in the value of sites. We recommend, therefore, that a part of the receipts from non-agricultural assessment should be given as grants to the local bodies within whose areas they are collected.



सत्यमेव जयते

CHAPTER VII

IRRIGATION AND BETTERMENT CHARGES

(1) Water rates

The present system of irrigation charges has developed differently in different States with the result that there is multiplicity both in the principles and in the rates of assessment. A broad classification of the charges would be:

Systems of irrigation charge

- (1) those payable by cultivators in return for the service of irrigation and thus forming an item in the cost of production; and
- (2) those payable by the owners of lands benefited, in consideration of the increase in the value of the land.

Problems relating to the latter category of charges are discussed in a subsequent section. At this stage, we may consider the system of water rates, water cess or occupier's rates, as they are variously termed, which at present constitute the bulk of irrigation revenue. Except on projects in scarcity areas which are undertaken with a definite protective intent, water charges on the productive schemes vary both in the method and the rates of levy. A rough indication of the variation in charges for the principal crops or classes of crops in different areas as well as the basis of their assessment is given in Statistical Appendix No. 3. The more important systems of levying water charges may be grouped under the following heads:

- (i) *Volumetric rate*, i.e., a charge according to the quantity of water delivered.
- (ii) *Consolidated rate*, i.e., water charge which is consolidated with the land revenue assessment and fixed on the settlement principle.
- (iii) *Differential rate*, i.e., a rate for water taken on dry land from Government sources of irrigation corresponding to the difference between the assessments on dry lands and wet lands.
- (iv) *Occupier's rate*, i.e., a fixed rate charged on the area actually irrigated and which usually varies with the nature of crop or crops.
- (v) *Agreement rate*, i.e., a charge based very much on the same lines as in (iv) above, but which is fixed by agreement for a period of years and paid for, whether water is taken or not.

Each of these methods is discussed below:

2. *Volumetric rate*.—Although the principle of levying a charge on the basis of the quantity of water consumed is generally accepted and it has been made applicable to lift irrigation schemes (Bombay, Uttar Pradesh and Bihar), the application of this system to lands under canals is found to be difficult. It is at present confined only to a few large estates in Punjab. The underlying principle is much the same as is applicable to the supply of gas or electricity. The undertakings providing the supply charge their consumers according to the number of units consumed. The main advantage claimed for this system is that it promotes the economical use of water, while at the same time securing, under conditions of keen demand, an adequate return to Government. However, as the Indian Irrigation Commission observed, the emphasis needs to be laid largely on a system of volumetric distribution rather than on assessment, as the latter is not without its practical limitations. A difficulty inherent in this system is related to the purely mechanical aspect of measurement; for it is not easy to devise a mode of measurement which, while on the one hand reliable, is on the other not readily susceptible to malpractices on the part of petty officials. Besides, the success of the scheme is largely dependent on proper and effective arrangements for distribution of water between different landholders and for apportionment of costs between them. This is especially difficult where the area irrigated consists of a number of small and scattered holdings. The working of the system in Punjab, where it was tried sometime ago, has shown that it does not secure the principal advantage claimed in its favour, that of economy in the use of canal waters. The experience was that the average consumption of water worked out higher than under the system it replaced. Moreover, as the principle was accepted that the volumetric rate should not exceed the value of water charged under the acreage system, Government derived no financial advantage either. The volumetric system, however, works well in the case of lift irrigation schemes, tube wells, etc., and where the area irrigated is in a compact block.

3. *Consolidated rate*.—This system obtains largely in areas commanded by older works in the States of Madras, Mysore and Hyderabad. The charge for water is merged in land revenue proper and fixed on settlement principles. In Hyderabad, for example, while fixing wet rates consideration is given to the 'water class value', besides the 'soil value', depending on the character and value of the means of irrigation assigned to each unit of land. The advantage of the system is that it avoids multiplicity of taxes and reduces to some extent the cost of assessment. The system also provides for compulsory payment of a water charge which would ensure a minimum return on the project. Even if the water charge is consolidated with land revenue, it is usual to separate the charges for land and water for accounting purposes, although the principle of such division would seem to be arbitrary and not based on any precise calculation of the value of water and land separately. Thus the proportion of assessment due to water, which, for instance, may be anywhere between 62 per cent. and 86 per cent. of wet assessment in the various districts of Madras and Andhra is worked out on the basis of the difference between dry and wet rates for different classes of land. Excepting that the value of water is in some measure influenced by the nature of

soil in the area under irrigation, there is no other reason for lumping land revenue and water charges together. This practice has, however, been discarded on all new works, and an examination of this system has, therefore, no practical significance except with reference to a few old projects.

4. *Differential rate.*—Another system of water charge, which has been condemned as unsound in theory and extremely clumsy in practice by the Taxation Inquiry Committee, is the differential rate system adopted in some of the older works in Andhra and Madras. The principle, here, is that when a dry land is irrigated from Government sources, the water charge should correspond to the difference between the wet rate and the dry rate of assessment of the corresponding land. The advantage claimed for the system is that it provides for a charge commensurate with the yield of the land. It avoids the drawbacks of a system of fixed water rates under which the same rates are charged for all lands alike, irrespective of the net profits of irrigation, merely because the lands happen to be irrigated from the same source. The system, however, involves a large number of complicated calculations which would not be easily comprehended by the village officers, nor be intelligible to the cultivators. There are other administrative difficulties in so far as the system gives rise to a large number of money rates rendering proper preparation of accounts and checking difficult, if not providing some scope for malpractices. Finally, its applicability is limited to areas of which proper soil classification has been made. In view of these difficulties, there has been an increasing preference for a fixed rate system under which the water charge is fixed on a flat rate basis and varies only with such considerations as the nature of crop grown, category of irrigation facility, etc.

5. *Occupier's rate.*—A system that is in general operation over the greater part of the country is one where the charges are related to the nature of crop or class of crop and are fixed for the area actually irrigated. The rates for different crops are based mainly on these considerations:

- (1) quantity of water normally required by the crop;
- (2) the scarcity or abundance of supply at the time; and
- (3) value of the crop.

Concessional rates are provided in respect of certain crops, e.g., fodder crops. There is, however, no variation in charge according to the distance of the land from the head of supply, its productivity or its value. An objection usually raised against this system is that it is not conducive to economy in the use of water. Moreover, under conditions of competitive demand, it fails to secure optimum revenue to Government.

6. *Agreement rates.*—While the principle of 'no water, no charge' is generally observed, agreement or lease systems of water rates have come to be adopted on certain works as a result of local conditions and requirements. In the deltaic regions of Orissa, West Bengal, parts of Bihar and Madhya Pradesh where climatic conditions render it very doubtful whether the cultivator will in any particular season take water for his field or not, attempts have been made to induce him to take a lease for a period of years. For instance,

in the area commanded by canals in Orissa, the present practice is to give long term block leases, which often extend upto ten years. Such leases are generally sanctioned where 95 per cent. of the net irrigable area of the block has been signed for. While long term leases enable the cultivators to draw water from June to March for whatever crops are grown, seasonal leases are also given usually for irrigation of rice lands. Within the period of the agreement or lease, the payment is compulsory, so that the Government is not saddled with the cost of maintenance of works without realising water charges, which a voluntary system under conditions of intermittent demand would involve. Under the long term lease the cultivator is required to pay a lower charge and this concession encourages him to enter into a long term agreement. The system has proved popular as is evident from the growing demand for such leases and from the extent of increase in the guaranteed area. Another type of agreement rates obtains in the Deccan Canals in Bombay, where industrial concerns like sugar companies have secured the facility of a regular supply of water by entering into agreements covering long periods. Here, the crops are valuable commercial crops requiring a perennial supply of water which has to be guaranteed. For assuring such supply, the Government recover a much higher water charge. The water rates charged in the case of Godavari and Krishna projects in Andhra and in the case of some projects in Madras are similarly on the basis of agreement rates.

7. In areas where water is taken on demand with special permission, 'demand' or 'occasional' rates are charged which are considerably higher, sometimes nearly twice the agreement rates. Where canal water is utilised without proper authorisation, penal rates are imposed, which are raised with the recurrence of such offence.

8. Some of the systems of water charges outlined above also apply to minor irrigation schemes. The term 'minor work' does not necessarily indicate the degree of its importance or its unremunerative character.

Minor irrigation works
These works, for which detailed finance and revenue accounts are not maintained, comprise various classes and sub-classes of schemes varying from small ponds and wells constructed and maintained by private effort to large storage tanks benefiting hundreds of acres of wet lands. The advantage of these works is not so much in the revenue they provide to the State as in the scope they afford for the practice of economy in the use of water and the distribution of water by the cultivators themselves without any outside interference. A number of these are old works constructed by former rulers, on which at present expenditure by way of extensions and repairs only is incurred. Thus, in Madras, the cost of repairs is recovered from the cultivators under the '*kudimaramath* Act' where an irrigation channel is found to have silted up and the *pattadars* fail to undertake the necessary repairs. Where the villagers themselves maintain the works, a small cess is levied to finance the improvement of the channels or group of channels concerned. Similarly, in the State of Mysore, an irrigation cess is levied at a flat rate of one anna in the rupee of assessment chargeable on all irrigated lands, and the amount so realised is devoted to the repair of tanks. The cess, however, is not a distinct levy, and at the time of revision settlement, it is merged in the standard assessment. There is also provision to recover one-fourth of the

actual cost or estimated cost of restoration of a work through acreage contributions which are levied in proportion to assessments payable on lands under command of the work. Elsewhere as in West Bengal, Government sometimes empower private parties such as co-operative societies, etc., to construct or repair minor irrigation works, and they are allowed to enjoy the benefits of the works for a period of 25 years or so. Where additional benefits are provided, the Government may charge a small cess. For the construction or repair of many of these works, Government contribute a subsidy ranging from 1/3 to 75 per cent. of the cost of repairs. In Bombay, the practice is somewhat different. Here the works are grouped as first or second class according to their economic value and classification of accounts. On some of these works, very high rates are charged which are, however, optional in the sense that they are payable only by those who draw the supply of water. In Madhya Pradesh, there is no clear-cut distinction made between major and minor works. The practice in regard to the levy of charges for supply of water from new minor irrigation works, varies from State to State. Where the cost of the scheme is contributed by villagers either in the form of cash or labour, no payments are recovered for supply of water except when specific repairs or improvements are undertaken. In Bihar, under a recent Act (Public Irrigation and Drainage Works Act, 1947), the cost of such schemes is fully recoverable from the cultivators, usually in ten annual instalments.

9. On account of the heavy rise that has taken place in the prices of materials and in wages and salaries, the cost of construction of new irrigation works and the maintenance of old and new works has increased very much. An analysis of the financial results of certain works taken at random, shows that the average running expenditure on major systems has varied between 54 to 77 per cent. of gross receipts during the years 1948-49 to 1950-51 as compared to the average of 40 per cent. obtaining in the pre-war year of 1938-39 (*vide* Statistical Appendix No. 4). The accumulation of interest charges and the large scale extension and renovation of small schemes under the Grow More Food campaign have further contributed to an increase in the expenditure of State Governments on irrigation. The significance of irrigation as an item of revenue in the States' budgets has, therefore, dwindled relatively to the growth of other resources, and at present it constitutes hardly three per cent. of the combined revenues of the Part A and Part B States (*vide* Statistical Appendix No. 5).

10. Several State Governments have already taken steps to impose additional charges or to increase existing rates. Considerable scope for such revision of rates has been provided by the improvement in the prices of agricultural produce during the War and post-war years. The incidence of water rates which were fixed during the latter period has thus gone down considerably in recent years emphasising the need for revision in rates. It is not possible to state whether the recent increases in water charges levied in different States would enable the Governments to reduce their current costs on irrigation works, but the general anticipation is that it would be possible largely to cover the increased working expenses on these projects. In Uttar Pradesh, however, the increased water charges are expected not only to meet

the working expenses but to provide resources for undertaking new irrigation works or extending existing ones. In Orissa, on the other hand, it has not been found possible to improve the returns from irrigation works even after revising the water rates on some old works. Considerations of backwardness of the tract served and the limited capacity of the cultivators to bear the charges make it difficult for the State Government to recover the full economic rates.

11. Apart from enhancing the water rates, other measures expressly designed to improve the return on the outlay, if not to provide additional resources, have recently been introduced in some States. The most noteworthy among these is the proposed betterment levy which is discussed in a subsequent section. Besides this capital charge, the idea is being increasingly accepted of enforcing compulsory water charges in project areas to meet the minimum maintenance charges and to avoid possible losses, especially where adequate response is not forthcoming. In Bombay, a Committee was appointed by Government in 1947 which examined the question of financial stability of irrigation works in the State and recommended the imposition of a compulsory irrigation cess in the shape of a small fee to be paid by every landowner under the irrigable command of a canal system irrespective of whether the water was or was not used. In accordance with this recommendation, the Government of Bombay have amended the Irrigation Act and propose to levy a cess varying between Rs. 2-8-0 per acre in respect of 8-month crops to Rs. 22-8-0 per acre payable for perennial crops. A similar cess but at lower rates is proposed to be levied on lands under command of the Chambal Valley Project and also the Lower Bhavani Project. The Committee which examined the question of the rates for supply of water from the Hirakud Project, has recommended a basic rate of Rs. eight on all lands which will come under the command of the canals. For the Tungabhadra Project also, it is proposed to levy a compulsory rate on all lands under command. The most recent move in this direction, however, is the decision taken in West Bengal to levy compulsory water rates in the area commanded by Mayurakshi Project. The compulsory rate is justified on the ground of inadequate response from the cultivators in spite of the provision of various inducements in the initial stages of development, such as rebates on kharif crops, an option to pay charges in terms of paddy, etc.

12. With the relaxation of financial tests in recent years, the conventional distinction between productive and protective works has largely disappeared, and it is likely that, in future, investment on irrigation projects will be considered more from the point of view of the totality of welfare the schemes help to create than from that of the prospect of immediate cash returns. There is reason to believe that such benefits constitute a significant proportion of total realisations from irrigation works. The extent and direction of such returns would undoubtedly depend on the nature of the irrigation facilities provided and the development potentialities of the project area. It would be difficult again to establish any definite relationship between these and 'direct' returns. While fixing standards of productive capacity of projected schemes, therefore, it is not possible to prescribe any rigid proportion between direct and indirect

receipts, the determination being largely dictated by agrarian policy and national requirements. The question, however, assumes significance while assigning a functional role to water rates in the context of the development of irrigation. As a general principle, it is clear that, in future, the system of levying water rates will have to be such as to enable an economical use being made of canal waters and to promote conditions which will make the maintenance and development of irrigation works possible on a larger scale than at present.

13. It is very difficult to make any general statement whether the water rate is a service charge or includes an element of tax. In the case of more recent irrigation works, the water rates do not yield receipts even to cover the water service costs; but on some older works (e.g., in Hyderabad, Punjab and Uttar Pradesh) the Governments concerned realise some profits. In the case of irrigation works undertaken with a definite protective intent, there is a considerable element of subsidy from general revenues. The scale of water rates being largely dependent upon economic and other circumstances of the area commanded by the works, it takes the character of a service charge in some areas and of a tax in other areas. Broadly, the assessment of water rates may be regulated accordingly to three different principles:

Character of the water rate

- (1) no loss and no profit;
- (2) no profit and some loss;
- (3) some profit and no loss.

No one principle can, however, be recommended for universal application. Ordinarily, water rates must cover the maintenance charges, i.e., the policy must be no profit but also no loss. But to this there would be several exceptions. A policy of no profit and some loss would in our opinion be justified in the case of an irrigation work for a scarcity area which is being economically developed. On the other hand, a policy of some profit and no loss would, we believe, be justified where an irrigation project has been provided for a fairly well-off area or where an old work existed from which benefit had already been derived and continues to be derived by cultivators in the region.

14. Productive irrigation works, i.e., works in areas other than scarcity areas, should not, as a rule, involve any loss to the general revenues. For this purpose, it is necessary, we consider, to link the water charges to the maintenance costs. The maintenance costs are of two types: (1) those which have to be incurred to keep the irrigation project in working order, and (2) those which have to be incurred to supply water to the cultivators. Even where no water is taken, the maintenance costs of the former type have to be incurred by Government. Accordingly, the water charges have to be of two varieties:

Water rates on different works

(1) A small charge covering the cost of repairs, establishment, drainage, etc., which has to be recovered from every landholder under the command of the irrigation project, irrespective of whether water is taken by them or not.

(2) An additional charge for the supply of water which will primarily cover the debt charges, overhead expenses, etc. This will be levied on those who actually make use of the water from the project.

15. At present, in most States, the water rate which is recovered from the area actually irrigated is fixed with reference to the maintenance costs. Such a practice presents no difficulty where the demand for water is constant and the irrigated area does not vary from year to year. Where, however, water from the project is taken only to supplement the rainfall and, therefore, the demand varies according to the rainfall during a year, Governments are put to much loss and fail to recover even the minimum cost of keeping the irrigation systems in working condition. The report on a system of compulsory water rates in the Tungabhadra Project provides an illustration in the shape of the Kurnool and Cuddapah canals where even after 75 years of their construction the cultivators in the area are accustomed to taking water only if the rains fail. The irrigation works in West Bengal also suffer from the same tendency. Where irrigation is provided at great cost and the crops grown are such as can be irrigated with profit, the State Governments would, we suggest, be justified in insisting that cultivators avail themselves, to the fullest possible extent irrespective of the vagaries of rainfall, of the opportunities for better yields provided by the project. A compulsory charge which would, therefore, be justified on this ground, would in our opinion, have also to carry with it an assurance that water will be supplied to cultivators when required. Similarly, the provision of facilities in the matter of credit, marketing, etc., will induce the cultivators to make increased use of irrigation.

16. The compulsory maintenance charge has necessarily to be small in amount, if its enforcement is to present no difficulties and if it is to be acceptable to the majority of cultivators. At present, there is a growing tendency on the part of State Governments to make the water rate compulsory. As the water rate covers many other charges besides the minimum maintenance costs, a compulsory water rate would become a burdensome tax, especially where the scope for profitable utilisation of irrigation, because of various unfavourable factors, is limited. Though in actual practice the division of water charges into a compulsory levy and a voluntary payment as proposed above, will vary according to the conditions obtaining in the project areas, in principle, the compulsory charge according to us should be a small fee relatable mainly to the minimum maintenance costs.

17. Similar considerations should, we would add, apply to minor irrigation works. In so far as the water charge is consolidated with land tax, an element of compulsory payment is already provided for. Elsewhere, a small fee is justifiably charged, especially where such maintenance is regular and of a nature requiring departmental assistance. Where the Government incurs considerable expenditure by way of extensions and renovations, a special cess can, in our opinion, be justifiably charged on the area benefited by the improvements.

18. In determining the water rate that is payable by those who take water, the first principle would be, as indicated earlier, that the realisations from such a rate should at least cover the debt charges and overhead expenses on the project. While this would be the basic

**Maintenance costs
and water rates**

**Compulsory water
rate**

**Voluntary water
rate**

principle, several other considerations enter into the fixation of water rates. The more important of these are:—

- (1) quantity of water supplied;
- (2) value of crop grown;
- (3) extent of benefit realised by the cultivator; and
- (4) ability of the cultivator to pay.

As observed by the U.P. Irrigation Rates Committee, 1938: "The value of water is a function of the cost of supply and the increase in produce value from the land irrigated. The former determines the lowest financially sound, and the latter the uppermost permissible limit between which water rates can vary, and a fair rate is one which yields adequate profit on the outlay on the one hand and offers sufficient inducement to the cultivators, on the other, but prevents them from extravagance or waste".

19. In any system of water rates, the upper limit is naturally set by considerations of capacity to pay, as reflected in the size of net income a cultivator is able to gather from his irrigated crop. But determination of net income presents many administrative difficulties, although on theoretical grounds the case for water rates being linked to net incomes is unassailable. The adoption of such a rate would involve classification of lands into various categories to correspond to various degrees of benefits conferred and also periodical valuation thereof. A water rate fixed on the rental basis, would also not be proper, as rental income is in several cases subject to other charges. A simpler method of fixing the water rates is to determine them on the basis of the value of the crop grown. The practice in other countries conforms to this principle. A water rate which varies with the value of the market price of crops is also more equitable than a flat water rate. Further, a water rate linked to the crop provides scope for variation in the charges according to the quantity of water drawn, since water requirements vary considerably for different crops. A charge dependent entirely upon the quantity of water drawn is more scientific and a large body of opinion is in favour of the adoption of the volumetric basis. Although, as discussed earlier, the system is theoretically ideal and is in operation in lift irrigation schemes, its extension to canal irrigated lands presents a number of practical difficulties. It is obvious that while fixing rates for supply of water for irrigation no single basis which would meet the different conditions and differing requirements of the various States can be devised.

20. The scope and justification for the inclusion of a tax or profit element in the water rate arises in areas where the alternative cost of supply is higher than the rate fixed by the Government or where the area covered by the work is fairly developed and the irrigation facilities add further to this development. Moreover, where because of the low cost of construction and maintenance of old irrigation works, water rates are much lower than in other areas and undue advantage from these low rates is derived by individual cultivators, the State Governments would be justified in increasing the water rates by adding an element of tax with a view to appropriate to the general revenues some part of these large benefits that

have accrued. Normally, however, the possibility of State Governments earning profits from water rates is limited, being confined practically to the older works, as in most of the recent projects the costs of maintenance are so great that no margin is left for earning profits from water rates.

Period for which the rate should remain in force 21. Yet another problem which arises while fixing the water rate is the term for which the rate is to be fixed. Except in areas where the rates are consolidated with the land revenue or charged under special agreements, in which case an earlier variation in charge is not feasible, rates once prescribed continue for an indefinite period till they are again revised by Government. Generally, the practice is to vary the rates with reference to such factors as increased cost of maintenance, increase in agricultural prices, requirements of State budgets, etc. Thus, the rates charged on canal waters in Bombay are revised at intervals of three to five years. While in Madhya Pradesh the rates are reviewed almost every year, in Punjab and Uttar Pradesh, the rates have been revised at less frequent intervals. Rates fixed on a long-term basis give a feeling of security to the farmers and also impart a degree of stability to irrigation revenues. Further, they obviate the necessity of annual assessments and to that extent administrative costs are reduced. Water rates fixed on a long-term basis do not, however, take any account of the rise or fall in agricultural prices and particularly in the present period of development, such a practice would deprive Government of a legitimate increase in revenues. It is necessary, therefore, that the water rates should be reviewed (and revised when necessary) at shorter intervals.

Uniformity in rates 22. It is obviously not possible to fix uniform rates for water from different sources of supply without sacrificing scientific principles and, in some measure, the revenues of Governments. If the rates were fixed arbitrarily, it would make for an extremely inequitable system favourable to some areas and burdensome to others. Uniformity as between the water rates in areas served by old works and the water rates in areas served by new works by increasing the former to the level of the latter would impose heavy additional burden on lands under command of old works. The conditions of cultivators, the type of soil irrigated, the class of crops grown, etc., vary from area to area and a rate which would be suitable for one tract would not be suitable for another. There is, however, in our opinion, need for reducing as far as possible the present differences in the cost of water supply within the same class of irrigation works in a State and between different States.

Concessional rates 23. A relevant consideration while framing water rates on new projects is the extent of concession or incentive to be provided in the water charge, particularly where it is the intention of the authorities to provide relief or to promote the introduction of certain new farming techniques and crops. The need for such concessions arises because the materialisation of expected yields takes time and during that period added liability is imposed on the cultivator by way of cost of reclamation and of other measures for preparing the land for receiving irrigation water. There is even now,

in some countries, the practice of providing free irrigation in the first or second year after the opening of new canals or charging only a portion of the prescribed rate. The latter system is prevalent in some of the projects in Australia where the principle of sliding scale assessments is applied to water charges. Thus the rate is kept one-fourth in the first year, one-half in the second, three-quarters in the third and the full amount is recovered in the fourth year. Elsewhere, as in Italy, a fixed reduction is made in water rates on lands brought newly under irrigation for the first three years. While these inducements are necessary to attract demand, they postpone the prospect of a return on the investment made by Government on these works. But if by such measures it is possible to achieve the desired object, the postponement would not be of any consequence except where free irrigation is provided by the State; these concessions would arise in respect of only the supply rate or the voluntary water rate and not in respect of the compulsory cess which is intended mainly to cover the minimum maintenance costs. In areas where concessions are allowed, a strict watch will, however, have to be kept on the progress of development and revenues so that the normal rates are levied on these lands as soon as the cultivators start realising benefits. Similarly, in the case of 'protective works' where the water charges might initially have been fixed with a view to help the cultivators, we recommend a periodic enquiry into the maintenance costs and the benefits derived by the cultivators in the area, since this would provide a proper basis for adjustment of water rates to changing conditions.

24. Finally, the question of transferring minor irrigation works like wells and tanks to local organisations such as panchayats, co-operative societies, etc., for maintenance has assumed considerable significance in recent times. In some States, steps have already been taken to transfer minor irrigation works to local authorities, particularly to village panchayats. For instance, in Madhya Pradesh, village panchayats have been made responsible for the proper maintenance of minor irrigation works. While this arrangement might work well in the case of wells and tanks, the transfer of the more important schemes might be difficult, largely in view of the fact that these local bodies have at present neither the technical personnel nor the finance to discharge the responsibility. The maintenance and the carrying out of periodic repairs to these larger works should, in our view, remain the responsibility of State Departments. However, we recognize that the services of the village panchayats can be usefully utilised in the collection of irrigation cess and water rates. Besides possible savings in costs of collection, such an arrangement offers distinct psychological advantages. Also this kind of public help would be very advantageous to State authorities in that it may assist in ensuring proper distribution of water and prevention of encroachments.

(2) Betterment Levy

25. It is a matter of common knowledge that the introduction of canal irrigation is generally followed by an increase in the annual and capital value of lands under the command of a project. Such increase in the value of land is not the result of any

Transfer of minor schemes to local organisations

Taxation of unearned increment in land values

to finance the fixed cost of development projects. In the States benefited by the multi-purpose Bhakra-Nangal project, the tax is proposed to be utilised for repayment of the capital cost and interest on the loan. The acreage contributions in Mysore are similarly related to the capital outlay on schemes. In Punjab, however, the amount of the levy is limited to such part of investment as would make the scheme financially productive.

30. Many States have accepted the principle that the betterment levy should not exceed 50 per cent. of the increment in value whatever be the basis for computation of such incremental value. While the Andhra and Madras States aim at appropriating 50 per cent. of the net increased value, on perennial lands commanded by the Bhakra Project the betterment levy comes nearer to one-fourth of the increase in capital value. For a maximum rate of betterment, 50 per cent. of the increased value in land due to irrigation is suitable, though the actual rates will have to be so fixed as not to take away all incentive for irrigated farming but to leave the farmer to derive some tangible benefit, so that his well-being is an example which will induce others to take advantage of the irrigation provided.

31. The maximum limit referred to above applies to increase in the capital or capitalised value of land and not to the annual increment. It is, however, possible that the annual instalment of betterment levy, either singly or in combination with the normal water charges, may exceed one-half of the additional income or profits in any one year. In working out the betterment levy, the Advisory Committee for the Hirakud Project has proposed that the instalment payable as well as the basic water rate should not exceed 50 per cent. of the additional profits attributable to irrigation. However, whatever the basis adopted for fixing a ceiling, there has to be an element of flexibility in it. With the exception of Hyderabad, where the instalments are free of interest, all States charge interest on deferred payments. Incentives are, however, provided by means of rebates on advance payments which vary from seven per cent. in Mysore to as much as twenty per cent. in Madras. The period of payment varies from State to State and ranges from 10 to 30 years. It is well known that all lands do not react immediately to irrigation to an equal extent and some period has to elapse before they reach full development. Besides, the land holders have also to pay for the construction of water-courses and make additional investments to prepare the lands for irrigation as also for intensive cultivation. The recovery of the betterment levy over a short period may impose on such cultivators a heavy burden by way of large instalments. The burden has, therefore, to be spread over a reasonably long period.

32. Allied to the question of period of payment is the problem of adjustment to price changes. A sharp decline in agricultural prices will reduce incomes from lands and the payment of annual instalment of betterment levy may be rendered difficult. No provision for meeting such a situation seems to exist in the various State enactments, although the need for remissions is recognised when there is a breakdown in supply or the area is water-logged, etc. The Andhra Bill empowers Government to exempt any case or class of cases from the

construction charges were adjusted to gross income of land, subject to a maximum repayment period. The repayment charges on project lands would be determined by a suitable appraisal board which would appraise the relative values of different farm units and establish for each unit a sum covering its proportionate share of construction costs and also calculate unit allowances for costs to be incurred by settlers to prepare the lands for irrigation. Attempts are thus made to distribute capital charges equitably amongst project lands consonant with the benefit they would receive from the projects and the actual distribution of charges would be resolved in pre-construction investigations and negotiations with water-users or contracting organisations. However, before assessments are made, it is usual to allow a development period averaging five years or so after the commencement of supply of water to enable the cultivators to improve their lands and realise the full benefits of irrigation.

28. The principle of sharing the unearned increment derived from irrigation projects has been accepted in India, and several State Governments have taken power to impose a levy on new projects. The Governments of Bombay, Hyderabad, Punjab, PEPSU and Rajasthan were among the first to enact the necessary legislation while Madras and Andhra have got the necessary legislative measures ready. The main features of the betterment levies imposed or proposed to be imposed by the different States are mentioned in Statistical Appendix No. 6.

29. The increase in the capital value of land is not the only factor that is taken into consideration in fixing betterment charges. In Punjab, PEPSU and Rajasthan the type of irrigation facility, the improvement of irrigation, etc., are also taken into account. Where the possibility of increase in the actual value of land is limited as in some areas of Punjab, the rules framed under the Act provide for calculation of betterment charges on the basis of possible savings in the cost of wells and their maintenance. In Hyderabad, several other factors such as nature of soil, productivity and fitness for irrigation, wet crops that can be grown economically, proximity to market, the probable expenditure involved in conversion of dry land into wet land, etc., are the determining factors. The Hyderabad Act also draws a distinction between old wet lands and new lands and lays down the maximum limit at one-half for the latter and one-fourth for the former. In Madras, under the proposed measure, the increase in value of land will be reckoned at ten times the annual increment in gross product, while in Andhra, it will be 25 times the net additional income after allowing for necessary expenses incurred or to be incurred for making the land fit for irrigation. The Betterment Act in Assam seeks to spread the cost of the scheme uniformly over the entire benefited area and to realise it on a flat rate basis. The Act, however, provides that the maximum cess, along with other charges, should not exceed six per cent. per annum of the original capital cost of the scheme adding thereto the annual cost of maintenance and supervision. All the States provide for payment of the betterment levies either in full, in which case a rebate varying from seven to twenty per cent. is given, or in instalments spread over a maximum period of 30 years. The land-holders are also given the option of surrendering a part of their land in lieu of payment of the betterment levy. The proceeds of the tax may or may not be utilised

to finance the fixed cost of development projects. In the States benefited by the multi-purpose Bhakra-Nangal project, the tax is proposed to be utilised for repayment of the capital cost and interest on the loan. The acreage contributions in Mysore are similarly related to the capital outlay on schemes. In Punjab, however, the amount of the levy is limited to such part of investment as would make the scheme financially productive.

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32. Allied to the question of period of payment is the problem of adjustment to price changes. A sharp decline in agricultural prices will reduce incomes from lands and the payment of annual instalment of betterment levy may be rendered difficult. No provision for meeting such a situation seems to exist in the various State enactments, although the need for remissions is recognised when there is a breakdown in supply or the area is water-logged, etc. The Andhra Bill empowers Government to exempt any case or class of cases from the

operation of the levy when its enforcement causes hardship. This gives wide discretion to the State Government. It would be advisable in our view for all States to provide for specific relief in times of steep price fall. The relief should ordinarily take the form of postponing the instalments, and where the decline in prices is steep and continuous for a number of years outright remissions may, we consider, have to be granted. We have referred earlier to the need for upward revision in the event of a sustained and substantial rise in price.

33. Somewhat different considerations apply to minor irrigation schemes. Very often, these works do not provide adequate protection, and the betterment is neither permanent nor clearly determinable. The cost of construction is not heavy and the maintenance cost is also low. For some works, part of the cost has been recovered (or is recoverable) from the cultivators either in cash or through labour contributions. A betterment levy on lands served by wells and tanks is, therefore, not justified. Minor irrigation works like tubewells and storage tanks, which provide substantial benefits and for the construction of which Government incur considerable expenditure, stand, however, in a different category. But even on these, it would be more appropriate to make a small addition to the water rate than to levy a betterment charge.



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APPENDIX A

SYSTEMS OF LAND REVENUE IN DIFFERENT STATES

Part A States

1. ASSAM

Land Revenue in Assam is assessed differently in temporarily settled areas and in permanently settled areas.

In temporarily settled areas, a detailed survey is made and lands are classified according to prevalent agricultural methods and their comparative value, broadly into home-stead, paddy and other lands which are again sub-classified according to relative situations and productivity.

In the framing of general proposals of reassessment for each assessment group, the Settlement Officer takes into consideration the changes that have occurred in the locality since the fixing of the existing assessment, more particularly in relation to—

- (i) the economic conditions of those who live mainly by agriculture,
- (ii) the value of agricultural produce,
- (iii) the cost of production, and
- (iv) the letting and selling value of the land.

For the determination of the amount of assessment proper for each estate, the villages and the fields are classified and fair rate per bigha fixed for each class of land in each class of village. In classifying the villages the following factors are taken into consideration:—

- (i) the fertility of the soil,
- (ii) the economic condition of those who live mainly by agriculture, and
- (iii) facilities of communication, accessibility to markets, and liability to damage by natural causes or from wild animals.

In classifying the fields, the Settlement Officer takes into consideration the comparative value of the land for the purposes of cultivation.

The total revenues assessed on an assessment group is not to exceed ten per cent. of the gross produce of the group as determined by the Settlement Officer. The increase on re-settlement in the land revenue is not to exceed the land revenue levied immediately before the settlement by more than 24 per cent. in the case of the entire area or class of estates notified for settlement and by more than 40 per cent. in the case of any village which was an 'established village' at the last settlement. If the total increase in case of estates held by the same owner or set of owners within any assessment group exceeds the former revenue on the same area by rupees twelve, provision is made for graduated enhancement of the revenue by spreading the increase in revenue over a number of years.

There are special rules for assessment of land under 'special cultivation' including the cultivation of tea. Cultivation of tea is an important industry in the State and production of tea was, in the earlier days, encouraged in several ways. Land was given on concessional rates and in some cases even revenue-free, to growers (mostly foreigners) for growing tea. Recently, most of these concessions have been withdrawn by the Revenue-free Waste Lands Grants Act, 1948. Even at present, the rates for land under cultivation of tea are a little lower than the rates for rice and similar crops. The rates range generally between annas nine and rupee one per bigha.

The term for which land revenue settlement is fixed is normally 30 years but Government may fix a shorter term for villages which are 'immature' and which were assigned a shorter term than the rest of the assessment group at the last settlement. The settlement terms usually contain a provision that if the land is used for commercial or industrial purposes, the assessment may be revised during the term of the settlement. The highest assessment for land diverted to non-agricultural use in rural areas is ten times the agricultural assessment on similar lands.

In some hilly tracts of the State, migratory cultivation called 'Jhum' is still practised. The tribes in this area do not confine their cultivation to any fixed area, each family being allowed to cultivate as much land as it wants and to select the locality of its cultivation without reference to the District Officer. In such areas, a tax called house tax, or hoe tax is imposed on each house or adult male member in lieu of the land revenue and irrespective of the area of land cultivated by the family. The tax ranges from rupees two to rupees three per family.

In permanently settled areas the rents are mostly determined by contracts based on prevailing customs and prevailing rate of assessment in the neighbourhood.

2. BIHAR

In the State of Bihar, 88·4 per cent. of the areas is permanently settled under zamindari, about 4·6 per cent. is temporarily settled with proprietors entitled to settlement or with farmers and about five per cent. is owned by the Government as Government Estates.

Bihar was a part of Bengal when permanent settlement was introduced. The permanently settled estates pay fixed revenue generally in four instalments during the year. If any estate fails to pay land revenue for a particular *kist*, it is advertised for sale.

In the case of temporarily settled estates, the following assets are taken into consideration:—

- (1) Rents payable by the raiyats to proprietors or tenure-holders.
- (2) Fair rent assessed on land held in direct possession by tenure-holders, if any.
- (3) The annual value fixed by the Settlement Officer of land held by the proprietor in direct possession, if any.

- (4) Miscellaneous items of income (*sair*) such as jalkar, falkar, hats, dues, etc.

Out of these assets, following deductions are made:—

- (1) Cost of repair of embankments and maintenance of patwari and the like.
- (2) Liability for the maintenance of the village Police either in cash or by setting apart some lands.

In addition to the above deductions, an allowance of 30 per cent. is allowed to the landlord.

In the case of Government estates, where there is a tenure-holder who is entitled to resettlement, land revenue demand is fixed in accordance with the terms of the agreement. In other cases, where there is no such tenure-holder, fair rent is assessed. An allowance of ten per cent. is generally made as collection expenses when such estates are settled with farmers.

The period of settlement in temporary areas is generally 30 years.

Recently, zamindari has been abolished and the rents which were previously paid by the tenant to the zamindar are to be paid as land revenue to the State pending further legislation on the subject.

3. BOMBAY

Bombay, like Madras, has also a ryotwari system of land revenue. Till recently some areas in the State contained special classes of tenure, e.g., *khoti* tenure in the Konkan and taluqdari in Ahmedabad and part of Kaira and Broach districts but these have now been abolished and the entire agricultural area of the State is now under the ryotwari system.

All land, whether applied to agriculture or other purposes and wherever situate is liable to pay land revenue and settlement of assessment is made by Government with the holder directly. The holder may, however, relinquish his land, by giving notice in writing before the 31st March in any year. Every holding is measured, classified and defined by boundary marks and entered in the land records as survey number and land is broadly divided into dry, rice and *bagayat*. The land is also classified into black soil, red soil and light soil. The depth of soil is found to be an important consideration and each diminishing degree of depth gives a lower grade in value. Soil classification also takes into account the distance of the holding from the village and the size of the village.

The land revenue is then determined by dividing the land in different villages into groups and fixing the standard rates for each group. These groups are formed on the following considerations:—

- (i) physical configuration;
- (ii) climate and rainfall;
- (iii) markets;
- (iv) communications;
- (v) standard of husbandry;
- (vi) population and supply of labour;

- (vii) agricultural resources;
- (viii) the variations in the area of occupied and cultivated land during the last 30 years;
- (ix) wages;
- (x) price;
- (xi) yield of the principal crops;
- (xii) ordinary expenses of cultivating such crops including the wages of the cultivator;
- (xiii) rental values of lands used for the purposes of agriculture; and
- (xiv) sales of lands used for agricultural purposes.

The aggregate amount of assessment in an area is determined at a settlement and at its revision by taking into consideration the factors enumerated above and the subsequent changes that have taken place since the last settlement and the amount thus determined is then distributed over the groups by means of maximum rates for the various classes of land.

The maximum limit of assessment is fixed at 35 per cent. of the average of the rental values of lands for a period of five years immediately preceding the year of the settlement. The limit for enhancement of existing assessment is 25 per cent. for the whole taluka or group of villages and 50 per cent. for the whole village or survey number or sub-division. The term of settlement is thirty years but if the land assessed is used for a purpose other than that for which it was assessed, the assessment is liable to be altered even during the pendency of the term of settlement.

4. MADHYA PRADESH

Except in Berar, where there is a ryotwari system of land revenue, the system obtaining in this province till recently was essentially a zamindari system. The zamindar or malguzar, as he is there called, was originally a farmer of taxes and the present status of landlord was conferred upon him by the British Government who made him responsible for the collection of revenue in the mahal. The Abolition of Proprietary Rights Act, 1950, has initiated several important changes.

The assessment of every estate, mahal or plot of land is offered—

- (a) in the case of an estate, to the proprietor,
- (b) in the case of a mahal, to the proprietor or if there are two or more proprietors, to the Lambardars* (if for special reasons the settlement officer so desires),
- (c) in the case of a plot of land separately assessed to land revenue in a mahal, to the 'Malik-makbuza'†,

*"Lambardar" means the proprietor of a mahal appointed to discharge the duties imposed on a Lambardar by this Act.

†"Malik-makbuza" means any person who owns one or more plots of land separately assessed to land revenue in a mahal.

With the abolition of the zamindari system the rights of the proprietors in estates, mahals, alienated villages and alienated lands now vest in the State Government and the cultivator has been brought into direct contact with the Government.

The revenue is based on the rental value of land which is determined by the Settlement Officer having regard to general or particular circumstances of an estate. In fixing the rent, the Settlement Officer takes these factors into consideration:—

- (i) the profits of agriculture,
- (ii) the existing level of rents in the locality, and
- (iii) the sale prices of land, the consideration for leases and the principal moneys on mortgages.

For computing the profits of cultivation the following deductions are allowed:—

- (a) the depreciation of stock and buildings,
- (b) the money equivalent of the cultivator's and his family's labour and supervision,
- (c) all other expenses usually incurred in cultivation on the land which is under inquiry, and
- (d) interest on the cost of buildings and stock and on expenditure for seed and manure and on the cost of agricultural operations paid for in cash.

The unit of assessment is a mahal and assessment is based on the assets of the village which comprise—

- (a) the rents of holdings fixed by the Settlement Officer;
- (b) the rental value of the *sir* and *khudkasht* land, and of land held by tenants, other than sub-tenants whose rents have not been fixed by the Settlement Officer, calculated according to the principles contained in section 5;
- (c) the *siwai* or miscellaneous income of the mahal, calculated on the income of the ten years immediately preceding the re-settlement, subject to such reduction on account of possible fluctuations as the Settlement Officer may think fit.

Under the land revenue regulations, the assessment was not to exceed 50 per cent. (later raised to 75 per cent.) of the assets thus worked out. With the abolition of proprietary rights, the whole assets of the mahal or estate become payable direct to the Government.

The villages are grouped with reference to the estates having the same general advantages in respect of being near or far from market, general security of production, etc. The lands in each village are then classified according to the types of soil. They are further classified according as they are embanked or unembanked, irrigated or un-irrigated. The position and the surface of the land is also taken into account. The rent in individual cases is then determined after taking into consideration all these factors.

The term of settlement is normally 30 years but in the case of a tract where there is ample scope of extension of cultivation, or for

development of resources owing to reconstruction of roads, railways or canals, the term of settlement can be shorter, but in no case less than twenty years. If there is permanent deterioration of a cultivable area or if the land is diverted from agricultural to non-agricultural uses or *vice versa*, the Deputy Commissioner can revise the assessment during the currency of the settlement.

5. MADRAS (INCLUDING ANDHRA)

In Madras, though there is no statute regarding land revenue assessment, the ryotwari tenure prevails and the tenure rights are practically the same as defined by the Bombay Land Revenue Code.

In this State, the settlement work starts with an accurate survey where primary attention is paid to the division of cultivated land in each village into survey numbers or lots as nearly as possible representing the individual holdings. The land revenue demand is fixed on each unit separately. Such units, in a majority of cases, do not exceed ten acres and may be even as small as a hundredth part of an acre. Cultivation is broadly distinguished into 'wet' and 'dry'. In a dry village, the basis for grouping of lands is similarity of climate, situation, market facilities, proximity to a railway line or town, etc., whereas in a wet village, the basis is the character of the source of irrigation. The classification of soil takes into consideration the natural differences of soil which are spoken of as 'soil series'. These 'series' are further subdivided into 'classes' depending on the quantity of clay, such as, pure clay, half sand or more than two-thirds sand, etc. The 'classes' are again subdivided into 'sorts' depending on whether the class of land is 'best', 'good', 'ordinary', 'inferior' or 'worst' of its kind. The next stage is to ascertain what amount of crop each different 'class' and 'sort' of soil will produce. The calculation of the quantity of produce of standard grain per acre on each 'class' and 'sort' of soil is called 'determining the grain value'. The grain value is then converted into money at the commutation price based generally on the average of the twenty non-famine years immediately preceding the settlement, a suitable deduction (generally fifteen per cent.) being made from such average price on account of cartage and merchants' profits. The foodgrains taken as standards are rice for wet lands and *cholam* and *ragi* for dry lands. While calculating the outturn of these crops from each kind of soil an allowance (usually 25 per cent.) is made from the gross produce for the vicissitudes of seasons and for unprofitable areas included in holdings.

The land revenue assessment is not to exceed fifty per cent. of the net produce. To determine this, the gross produce is first ascertained and valued at average prices and the cost of cultivation, etc., are then deducted. The items usually included in the estimate of cost of cultivation are—

1. Ploughing cattle.
2. Agricultural implements.
3. Seed.
4. Manure.
5. Labour required for ploughing, sowing, weeding, reaping, threshing, etc.

A resettlement generally takes the shape of an enquiry into the economic conditions of a tract and the average variations in prices of foodgrains—the limit for enhancement in a re-settlement is 18½ per cent. of the expiring rate of assessment. Except for special reasons, no re-classification of soil and no fresh calculation of grain outturn, cultivation expenses, allowance for vicissitudes of seasons, etc., are made at a resettlement. The term of settlement is thirty years.

A surcharge on land revenue has been recently imposed in the State by the Madras Land Revenue Surcharge Act. According to this Act, a landlord paying an aggregate assessment of Rs. 500 or more is liable to the surcharge. No surcharge is leviable on the first Rs. 250 of land revenue, and the rate of surcharge is two annas per rupee on the next Rs. 250, four annas on the next Rs. 500, and eight annas on the balance of land revenue payable.

The Andhra Government has taken a decision recently to exempt all landlords paying land assessment of Rs. ten and below from payment of any assessment to Government.

6. ORISSA

The State of Orissa, as it exists today, consists of parts of territories from the three old provinces of Bengal, C.P., Madras and the recently merged States (24 in number); the systems of land revenue prevailing in these parts, accordingly differ widely, as shown below:—

(i) *Land Revenue system in the three coastal districts of Cuttack, Puri and Balasore.*—This area once formed part of Bengal and the predominant system in this area is of permanently settled estates. The Government has confirmed in perpetuity, the revenue tribute or *peshkash* for these estates. The land revenue paid by the proprietors of these estates varies from one to twelve per cent. of the rental paid by the tenants.

There are also a considerable number of temporarily settled estates in the area. In these, the land revenue is settled for a term of 30 years and the holder has a right to transfer the whole or portion of his estate and has a prior right to renewal at each subsequent settlement.

(ii) *Land Revenue in the district of Sambalpur.*—The area can be divided into two tracts, viz., *khalsa* and *zamindari*. *Khalsa* indicates land which neither belongs to a *Malguzar* nor a feudal *zamin-dar* but held by a village headman direct from the Government. The *zamindar* stands half-way between the ruler of a feudatory State and the ordinary proprietor of a *khalsa* village who pays a portion of his assets as land revenue. The legal status of *zamindars* is that they are proprietors of estates which are impartible and non-transferable except to heirs.

In *khalsa* villages, the settlement is made with the entire proprietary body of a mahal and when superior and inferior rights co-exist in the same mahal the Settlement Officer determines as to whether the assessment is to be offered to the superior or inferior proprietors. The Settlement Officer further determines the proportion in which proprietary profits of a mahal are to be allotted to the

superior and inferior proprietors. The persons to whom the assessment is offered have an option to refuse or accept the same and in the case of refusal they can be excluded from settlement for a maximum period of 30 years. The excluded persons are, however, entitled to receive from the Government an allowance between five and ten per cent. on the amount of assessment offered. The assessment is a share of the gross or net annual value of the produce of the mahal or is in the form of rates chargeable on the produce of the mahal in each year.

(iii) *Land revenue system in the districts of Ganjam and Koraput.*—The main tenures are ryotwari, zamindari and *inam*. Under the 'ryotwari', the *pattedar* holds the land directly from the Government without intervention of the intermediaries subject to the payment of land revenue. The tenure is heritable, transferable and otherwise alienable without the sanction of the Government. In these areas, gross produce is first estimated, the cost of cultivation and other incidental deductions are made therefrom and the rent is settled on the money value of such net produce. Under the zamindari, the zamindar holds the lands permanently and pays annual *peshkash*. Many of the larger estates are impartible and succession is regulated by rule of primogeniture. The *peshkash* paid by those zamindars varies from one to fifteen per cent. of the rental paid by tenants. *Inam* villages are either held revenue-free or at a reduced assessment called quit rent. The States recently merged with the province are in different stages of development and in some of these where rents have been settled there are no codified laws and the rents have been settled in accordance with the prevailing custom and practice.

The zamindari system has been abolished recently and assessment on the ryots of a village now fixed is equal to the aggregate or sum total of the rent or land revenue which each ryot paid to the zamindar or the Government plus what the excluded proprietors would pay as rent and local cess for the land to be retained by them.

7. PUNJAB

In Punjab, the assessment is made on the entire estate and the landowners, if there are more than one, are jointly and severally liable for the payment; in other words, land revenue which is due from a person owning a part of the estate can technically be collected from another owning another part in the same estate. This is however, not generally done in actual practice. The entire land revenue of the estate is distributed among the individual landowners and collected from them separately. But the fact that joint responsibility for the payment of land revenue does not merely exist in theory has been recently demonstrated when arrears of land revenue due from evacuees from Punjab (India) were recovered from the proceeds of rents, etc., realised by the custodian.

The area to be settled is generally divided into groups of villages called 'assessment circles' which have been defined in the Act as a group of estates which are sufficiently homogeneous to admit of a common set of rates being used as a general guide in calculating the

The land revenue is then assessed on 'net assets' which have been defined in the Land Revenue Act as the estimated average annual surplus produce of such estate or group of estates remaining after deduction of the ordinary expenses of cultivation as ascertained or estimated. The 'ordinary expenses of cultivation' include payments, if any which the landlord customarily makes whether in kind or cash, either in whole or part in respect of—

- (1) water-rates,
- (2) maintenance of means of irrigation,
- (3) maintenance of embankments,
- (4) supply of seed,
- (5) supply of manure,
- (6) improved implements of husbandry,
- (7) concessions with regard to fodder,
- (8) special abatements made for fallows or bad harvest,
- (9) cost of collection of rent,
- (10) allowance for shortage in collection of rent,
- (11) interest charges payable in respect of advances made in cash free of interest to tenants for the purpose of cultivation,
- (12) wages or customary dues paid to artisans or menials whose products or labour are utilised for the purpose of cultivation and harvesting, and the share that would be retainable by a tenant if the land were let to a non-occupancy tenant paying rent whether in cash or kind, at the normal rate actually prevalent in the estate or group of estates.

In short, 'net assets' of a tract represent what the land of the tract might ordinarily be expected to fetch in rent less all costs incurred in earning the same. For this reason, the recorded cash rents are generally used to check the net assets at the time of settlement.

After net assets are worked out for an assessment circle, the demand is spread over the individual estates within the circle and while doing so the differences in soils are taken into account and different rates are fixed for different classes of land. The distribution of the village demand over individual holdings is done in consultation with the owners.

According to the regulations, the land revenue to be assessed, is not to exceed one-fourth of the estimated money value of the net assets. Further, the average rate of assessment is not to exceed the assessment by more than one-fourth in the case of an assessment circle and by more than two-thirds in the case of an estate. The above limits, however, do not apply to land revenue, to land in which canal irrigation has been recently introduced or to areas charged to urban assessment.

The term of a settlement is generally forty years and the previous assessment is to remain in force till the new assessment takes effect. The assessment cannot be changed during the pendency of a settlement but recently there has been an amendment to the Act, which

authorises the revision of assessment during the period of settlement in the case of agricultural land diverted to non-agricultural use. Within ninety days from the announcement of an assessment the landlord has to give notice to the Revenue Officer of his refusal to accept the assessment. When such a notice is given the Revenue Officer can take possession of the land and deal with it as nearly as may be, as if the annulment of the assessment thereof has been ordered. In such cases, the landowners are entitled to receive from Government an allowance between five and ten per cent. of the net income.

The major portion of the land revenue demand in the State is fixed but in certain tracts where cultivation depends mostly on flooding by rivers or nullas the demand fluctuates, being calculated on the nature of crop sown.

In one of the districts in the State, *viz.*, Amritsar there is a system of sliding scale of assessment. Under this system, the rates of assessment fixed at the time of settlement prescribe merely the theoretical rates. The actual rates realised at each harvest, are determined by the level of prices of the previous two harvests as compared with the commutation prices at the settlement. The sliding-scale system of assessment is intended to link assessment with prices and make it more relatable to the income from land.

A surcharge on land revenue has been imposed in the State with effect from the *rabi* harvest of the agricultural year 1953-54. Every landlord whose holding in the State exceeds five acres shall now be liable to pay $\frac{1}{4}$ th of the previous land revenue as surcharge on land revenue if his total holding does not exceed 30 acres and $\frac{2}{5}$ th of the land revenue where such holding is more than 30 acres.

This surcharge will not apply to the districts of Amritsar, Gurgaon, and Kulu sub-division of Kangra district—areas for which resettlement is not yet due.

The Government has recently appointed a Committee to review the procedure and principles of assessment of land revenue in the State.

8. UTTAR PRADESH

In this province, the settlement is made with the Taluqdar in the case of taluqdari mahals and with the proprietors in the case of other mahals. The unit of assessment is a mahal and if there are more than one proprietor in a mahal, the settlement is made either with the lambardar or with all the proprietors. All the proprietors are jointly and severally responsible to the Government for the payment of land revenue. If the proprietor refuses to accept the assessment declared by the Settlement Officer, he can be excluded from the settlement for a term not exceeding fifteen years and the Collector can either farm the mahal or hold it under direct management.

In the case of mahal where there are more than one proprietor, who bear to each other the relation of superior and inferior landholder, the settlement is made with the party possessing the superior right.

The settlement operations consist mainly in fixing the rents of the mahals or the estates concerned. The villages are grouped

into assessment circles possessing similarity of soil and physical character. The rent rate for each class of soil is then determined. The rent is fixed after taking into consideration the following factors:—

- (a) the level of rents paid by tenants who held or were admitted to land at different times and in particular the level of rents agreed to by tenants who were admitted to holdings in or between the years 1309 Fasli and 1313 Fasli;
- (b) the prices of agricultural produce prevailing such times;
- (c) changes in the crops grown and in the amount of the produce;
- (d) the valuation of the produce with a view to seeing that the valuation of the holdings of hereditary tenants at the proposed rates does not exceed one-fifth of such value; and
- (e) the expenses of cultivation and the cost to the cultivator of maintaining himself and his family.

The basis of assessment of land revenue are the 'net assets' which are worked out by deducting the allowance for proprietary cultivation (15 to 30 per cent.), for improvements (ten per cent.) and for shortage in recoveries (one to six per cent.) from the assets of a mahal.

The revenue assessed on a Mahal has to be ordinarily 40 per cent. but in no case can exceed 45 per cent. of the net assets.

If the number of proprietors in a Mahal is large and their circumstances are poor, the revenue assessed does not exceed 38 per cent. of the net assets, provided it does not mean a reduction in the existing demand. Further, where the number and circumstances of the proprietors or the existence of heavy charges on account of Malikana justify a lower assessment, the revenue may be assessed at any rate between 25 per cent. and 35 per cent. At any revision of assessment, the land revenue of a Mahal cannot be enhanced by more than one-third of the previous assessment. If, however, even with this increase by one-third, the revised assessment of a Mahal amounts to less than thirty per cent. of its net assets, the assessment is fixed ordinarily at 30 per cent. of the net assets. Since the abolition of intermediaries, the entire net assets of a village are now treated as land revenue.

The term of settlement is generally forty years though it may be shorter in the case of a mahal when there is extensive deterioration in land or where there is considerable concealment of assets. A part of the State was under permanent settlement after the pattern of Bengal till recently.

The present land reforms have abolished all intermediaries and hence the recorded rents, which form the principal starting point of the settlement so far cannot form the basis for future settlements. The Zamindari Abolition Act provides for this and the basis of assessment in future will be the estimated average surplus produce of the holding after deducting the ordinary expenses of cultivation. The percentage of the surplus produce to be taken as land revenue is to be determined by the Pradesh Legislature on each occasion. The

village as unit of assessment and joint responsibility of the cultivators for payment of land revenue will, however, continue as hitherto.

The Act has fixed the present land revenue at the rates of rent payable by different classes of tenants and has further provided that there would be no change in their rates for the next 40 years. A revision of settlement can, however, be taken up even within that period if there is a substantial decline in prices of agricultural produce and depression is likely to continue for some time.

9. WEST BENGAL

The State of West Bengal is predominantly a permanently settled area and mostly comprises 'estates' held by Zamindars with revenue permanently fixed. The land revenue is paid direct into the Government treasury by the zamindar on prescribed *kist* dates and in case of default, the estate is liable to be sold.

The system was introduced in 1793 without any survey or record of rights because a regular survey was very difficult at that time. All that was done, therefore, was to determine a fixed amount for each estate on the basis of the records of old revenue Kanungos. The totals of these were revised roughly with reference to general considerations of prosperity of the estate, the value of its waste area and its capacity for extension. All cesses and extras on land revenue were abolished and adjustments were made with regard to the other charges payable by the landlord such as for example, 'thanadari land' (for Police) etc. In certain cases, the Government extended the privileges of the landlords' title and permanent assessment to landholders in districts where there were no zamindars. The assessment fixed on the land was declared permanent and the assessment was fixed approximately at ten-eleventh of what the zamindars received in rent from the ryots.

There are at present various grades of tenure holders and raiyats in an estate. There is a special class of tenure in 'Patni Taluks' which are permanent in nature. In this case, land is given on permanent lease in consideration of a fixed annual rent. It is heritable and transferable and all the rights of the zamindars are transferred by the grant. If, however, the rent is not paid, the land is liable to summary sale upon application to the Collector. There are also revenue-free estates recognised by Government and rent-free tenures created by zamindars for religious and charitable purposes.

The rights and interests of landlords and tenants are at present regulated by the Bengal Tenancy Act and a raiyat practically enjoys all elements of proprietary rights. He has absolute rights to transfer and sublet his holding and cannot be evicted except in execution of a decree for ejectment passed on the ground that he used his holding in a manner that rendered it unfit for purposes of tenancy. An under-raiyat also enjoys valuable rights and he cannot be evicted at the will of his landlord if he has acquired occupancy rights by local custom or is in occupation for a period of twelve years or has a homestead on his holding.

In course of time, however, it became evident that the system of permanent settlement was no longer suitable to the present

conditions. The Government of India Memorandum on land revenue policy in 1902 referred to this system as "leading to evils of absenteeism, of management of estates by unsympathetic agents, of unhappy relations between landlord and tenant and of multiplication of tenure holders or middle-men between the zamindar and the cultivator". The Land Revenue Commission especially appointed to go into the question in 1938, after detailed consideration, came to a similar conclusion. The Commission held that the system led to excessive sub-infeudation and had resulted in inelasticity of income from land revenue and financial loss to the Government from this source. They further held that it led to absence of contact between Government and the cultivators and meant absence of agricultural improvement. The Commission recommended therefore that the system of permanent settlement should be abolished as it had ceased to serve any national interest. Recently a law for the acquisition of zamindari rights has been enacted by the Bengal Government and this is likely to be implemented in the near future.

There are also some temporarily settled estates. In the case of these, the Settlement Officer first fixes the fair and equitable rent for tenants of every class and thereafter determines the land revenue payable by the proprietor after deducting from the gross rental assets, a proprietary allowance of about 30 per cent.

Part B States

10. HYDERABAD

Till recently, the agricultural land in this State was classed as-

1. Diwani or Khalsa land, i.e., land under the direct management of the Government which received the land revenue directly from the occupants.
2. Non-Diwani lands, i.e., lands not directly held under the Government. This included the Sarf-i-Khas lands which were the property of H.E.H. the Nizam and the revenue from which went to his privy purse and other Jagir or Inam lands revenue from which was assigned to certain persons or institutions from time to time.

The Sarf-i-Khas lands have been merged with the Diwani lands in February 1949 under the Hyderabad Sarf-i-Khas (Merger) Regulation and the Jagirs similarly abolished under the Hyderabad (Jagirs) Abolition Regulation. The Inam Enfranchisement Act which has been recently passed, seeks to convert all categories of Inams not saddled with the condition of service, into ryotwari holdings.

Thus, at present, the distinction between different classes of land has disappeared and the entire land is assessed on the ryotwari system. The system of survey and settlement and the principles of land revenue administration are laid down in the Hyderabad Land Revenue Act which closely follows the provisions of the Bombay Land Revenue Code.

The unit of assessment is the survey number and the settlement of assessment is made with the *pattedar*. All land (except land within village site in certain cases) whether applied to agricultural or

other purposes is liable to payment of land revenue and is assessed according to various uses of the land; assessment is liable to be altered during the term of a settlement if the land used at the time of settlement for a particular purpose is put to a different use. Every occupant of land is entitled to construct or repair farm building or wells or otherwise improve the condition of land occupied by him but he cannot appropriate the agricultural land to non-agricultural uses without permission.

The method of survey and soil classification is generally the same as that followed in Bombay and each holding is measured, classified and defined by boundary marks and entered in the land records as survey number. The important factors determining the soil classification are colour, depth and texture. The treatment for Telingana differs to a certain extent from that of Marathawada as in this area; a new factor such as the proportion of sand and clay in a piece of land is given the main consideration. The land is further divided into dry land and garden land, the land revenue being determined by dividing the land into groups and fixing the standard rates for each group. While arranging these groups and rates due weight is given to economic conditions, previous rate, state of communications, trend of prices and yields of different crops from the land. The method of assessment is thus empirical and not based on any system of net assets or net produce.

The Hyderabad Land Revenue Act does not impose any limitation on enhancement in revision settlements but in actual practice the following principles are kept in view:

- (a) The increase in revenue in the case of a taluka or group of villages brought under the same maximum dry crop rate shall not exceed 30 per cent.
- (b) No increase exceeding 66 per cent. should be imposed on a single village without the circumstances of the case being specially reported for the orders of Government.
- (c) No increase exceeding 100 per cent. shall in like manner be imposed on an individual holdings.

The maximum term of settlement is 30 years. The terms actually fixed vary from fifteen to twenty years in Telingana to 30 years in Marathawada.

The State has recently imposed a special assessment of two annas in the rupee of land revenue on dry lands, and at one anna in the rupee of the land revenue on wet lands.

11. MADHYA BHARAT

Madhya Bharat has been formed by the union of twenty-five States in the Central India Agency. About a half of the area of the new State consists of the old Gwalior territories and about one-fourth, of the old Indore territories. The constituent States were at different stages of development at the time of the union and the land revenue systems also differed in details. An attempt is now being made to introduce uniformity throughout the Union. The two important reforms that have recently been introduced, viz., the Abolition of Zamindari and the Abolition of Jagirdari, have gone a long way in achieving uniformity.

Till the introduction of these reforms, the land tenures prevalent in the Union were mainly zamindari in Gwalior and ryotwari in most of the other States. This ryotwari differed from the ryotwari in the Southern India in that the peasant was not given an unrestricted right to transfer the holding. With the abolition of zamindari and jagirdari, the entire land revenue system is now on a ryotwari pattern. Every person who holds land from the State is liable to pay revenue. He has the right to effect improvements but must use his holding only for agricultural purposes.

The revenue or rent payable by a tenant is fixed for the term of the settlement and cannot be enhanced during that term except when the area in his holding has increased by fluvial action or otherwise by more than ten per cent. Similarly the rent or revenue cannot be reduced during the term except on the ground that—

- (i) the area in his holding has diminished by fluvial action or otherwise by more than ten per cent.; or
- (ii) the soil of his holding has, without his fault permanently deteriorated by a deposit of sand or by any other circumstance; or
- (iii) any irrigation source, whether new or old, constructed and maintained at the cost of the State, has fallen into disrepair and has ceased to irrigate the whole or any part of his holding to which an enhanced rate has been applied on account of irrigation.

When any area is brought under settlement, the Settlement Officer is required to—

- (i) assess the revenue (if any) separately for each person who holds on a special tenure;
- (ii) assess and fix the revenue separately for each tenant who holds from the Government; and
- (iii) assess and fix the rent separately for each tenant who holds from an assignee of proprietary rights.

Regular settlement operations are, as in other States, preceded by survey and record operations. The basis of assessment is empirical and the physical features of the unit under settlement present and past conditions of the tract and its fiscal history are taken into consideration at the time of assessment. Villages are grouped together, soil classified and land values are determined in the light of numerous factors, like yield of soil based on crop cutting experiments or local enquiries, marketing facilities, prices and other improvements. Adverse factors like depredations of wild animals to the crops grown, soil erosion, water logging, etc., are also given due weight. The rates of assessment are usually about one-sixth of the gross produce. The period of settlement is 30 years. No statutory limit on enhancement of the previous rate exists, though the enactment of a Settlement Act on the lines of the Madhya Pradesh Settlement Act is under contemplation.

12. MYSORE

The land revenue system in the State is also ryotwari on the Bombay pattern and the main principles of assessment are embodied in the Mysore Land Revenue Code, 1888.

As in Bombay, each field is accurately measured and marked at the time of survey. Classification of lands follows next. In case of irrigated areas the basis of classification is the amount of water supply, the situation of land with reference to the source of irrigation. The villages are grouped on the basis of climate, the position with respect to markets and communications and the agricultural skill and conditions of the cultivators. The maximum assessment to be levied on each class of cultivation in a group is then fixed. The total amount of assessment to be levied on each group is determined by examining the nature and the effects of the past management of the area and by a comparison of the annual settlements of the previous years. The rates for individual fields are calculated thereafter on the basis of their anna value. In determining the enhancement in land revenue, the same principles as are followed in Bombay are observed. The basis of assessment is empirical, the term of settlement being usually 30 years.

13. PEPSU

PEPSU has been formed by the Union of the following eight States:—

1. Patiala.
2. Nabha.
3. Jind.
4. Faridkot.
5. Malerkotla.
6. Kapurthala.
7. Nalagarh.
8. Kalsia.

The convenanting parts were settled at different times but the basis of assessment in all the States was the 'net assets'. The proportion taken as revenue, however, differed from half the net assets in Patiala, Nabha (Part), Jind and Faridkot to a third in Nabha (Part) and nearly full in Malerkotla. In Kapurthala, Nalagarh and Kalsia, the assessment of revenue also worked out to approximately half of the net assets.

The Punjab Land Revenue Act now applies *mutatis mutandis* to the Union and so the principles of assessment in the area are the same as in Punjab. As in Punjab, a particular area is settled for a fixed period and there can be no change of revenue during the term of settlement. Similarly, the main factors that are taken into consideration at the time of settlement are—

1. The matured area under each crop.
2. Yield.
3. Average price.
4. Share of each crop taken by the landlord.

5. Expenses normally incurred by the landlord in connection with his rent.

Of the net assets thus worked out the maximum percentage that can be taken as land revenue is now fixed by law at 25 per cent. Another limit imposed on the enhancement of the previous rate of land revenue is that the incidence of land revenue in an assessment circle is not to exceed the incidence of land revenue of the previous settlement by more than one-fourth.

The area to be settled is divided into assessment circles and within a circle different rates are fixed according to the nature and quality of soil, e.g., Chalu, Nabu, Barani, Banjar, etc.

Though the land revenue is fixed in the major part of the State there is fluctuating demand in certain tracts whose cultivation is uncertain and is dependent upon flooding by the rivers.

14. RAJASTHAN

The State of Rajasthan has been formed by the union of eighteen States of the former Rajputana agency. About three-fifths of the area of the union consist of the former state of Jodhpur, Jaisalmer and Bikaner. At the time of integration, the land in this union could be classed into *khalsa* and *non-khalsa*. About 60 per cent. of the area is *non-khalsa*. In the *khalsa* area, about 73 per cent. of the area had been settled and the settlement followed a cadastral survey and systematic classification of soil. The Government share has been generally fixed at one-third or one-fourth of the gross produce.

The position of settlement in *non-khalsa* area is rather unsatisfactory. In these areas, the land revenue was recovered in the shape of fixed tributes from the individual landholders and the settlement was only in respect of the rent payable by the tenant to the landholder. At the time of integration, about eighteen per cent. of the area only had been surveyed and settled and in the rest of the area there were no proper records of settlement. To meet the situation, the Rajasthan Government have passed the Land Revenue Summary Settlement Act, 1952. This is, however, an interim measure and will continue till regular settlements are completed. The rate of revenue under these circumstances varies from one group of villages to another and in certain cases from village to village and even within the village itself.

15. SAURASHTRA

The State of Saurashtra is a Union of more than 200 different administrations and came into being on the 15th February 1948. At the time of integration, the different States had different forms of assessment systems but, by and large, the revenue was collected in the form of share-crops. The land was broadly classified into *khalsa* and *non-khalsa* and out of 4,415 villages about two-thirds were *khalsa* and the remaining *non-khalsa*.

The position about survey and settlement was very unsatisfactory and an idea of the same can be had from the following table:

Name of District	Unalienated villages		Alienated villages		Total No. of unalienated and alienated villages
	Surveyed	Un-surveyed	Surveyed	Unsurveyed	
Sorath	604	63	130	205	1,002
Madhya Saurashtra	533	60	53	349	995
Jhalavad	167	86	41	376	670
Gohilwad	571	97	100	299	1,067
Halar	491	17	36	136	680
TOTAL	2,366	323	360	1,365	4,414

The Saurashtra Government have attempted to rationalise the system and in the *khalsa* area, the tenants have been brought into direct relations with the State. As it has not been possible to undertake a scientific survey of all the areas immediately a lump sum assessment has been fixed on the basis of the average of recoveries of the last fifteen years. The intermediaries have also been abolished by legislation and a uniform code of land revenue has now been made applicable. The system, as it is at present shaping out, seems to follow the ryotwari pattern in Bombay.

16. TRAVANCORE-COCHIN

The State forms a class by itself in the sense that quite recently a uniform basic tax has been introduced in Travancore. This is supplemented by an agricultural income-tax. As the system in Cochin has not yet been put on the lines of Travancore the land revenue system continues to be different in these areas even after integration.

(i) Cochin

The land in this area may be classed as (1) *Jenmi* or 'Puravaka' lands. These were the absolute private property of individuals—*jenmies* or landlords and were leased out to tenants or *kudiyans* for cultivation on different tenures. The most common form of tenure was 'kanam' or *kanapattam*. It was a lease for twelve years, secured by an advance from the tenant and subject to renewal at the end of the period. The interest on the advance was debited to the rent due from the tenant and the balance of the rent alone was paid to the *jenmies*, besides of course the customary presents. Though the *jenmies* had the legal right of eviction, the force of custom was so great that it was seldom exercised. Eventually the '*kudiyans*' came to look upon these lands as their own subject to payment of rent and renewal fees. In 1867, the 'kanam' tenure was recognised as perpetual lease and the tenant was given fixity of tenure on payment of fair rent determined by custom or contract. By the regulation of 1933, the tenants were finally given full proprietary rights and placed on the same footing with the holder of *Sirkar* or State lands. The dues to the *Jenmi* were converted into annual payments called *Jenmikaran* which is settled periodically like the tax on *Sirkar* land and collected by revenue officers.

(2) *Sirkar* or '*Pandaravaka*' lands—in which the property in the soil belonged to the State—were held under innumerable tenures with only minor differences between each of them. The two important tenures were: lease to tenants-at-will and lease to tenants who had deposited a premium.

In 1905, full proprietary rights in the soil were conferred on the holders of *Sirkar* lands and since then there is no difference as to ownership over the land as between private land holders and holders of Government lands except in regard to the rates of assessment.

The prevalent system of land revenue is '*ryotwari*' and as in other States, settlement follows a detailed survey of land and classification of soil. Land is generally divided into (a) *niloms* or land fit for paddy cultivation and (b) *parambas*—other than *nilom* land. *Parambas* can be subdivided into garden and non-garden lands. In gardens, trees are taxed as such and the assessment calculated on trees is charged on the lands. Different rates have been fixed for different kinds of trees such as cocoanut, arecanut and jack trees. Maximum rate per acre is also fixed in these cases. *Nilom* lands and non-garden lands are assessed on the basis of fertility of the soil and its adaptability for cultivation. Different rates are fixed for different kinds of soil, depending on their fertility and yield and these are called '*tarams*'. The demand is fixed generally at half the net produce calculated after making liberal deductions on account of vicissitudes of season, cultivation expenses, etc., from the gross produce. The term of settlement is generally 30 years.

(ii) *Travancore*

Till recently the revenue system in this area was similar to that of Cochin and land revenue was assessed on the *ryotwari* principle but since 1946 a uniform basic tax has been introduced in this State. At present all land irrespective of whether it is wet or dry or garden, and whatever its nature of tenure, is taxed at the rate of Rs. 1-9-0 per acre.

Part C States

17. AJMER

The State of Ajmer is a small one district State situated in the heart of Rajasthan with an area of 2,425 square miles and a population of nearly seven lakhs.

There is no Settlement or Revenue Manual for working of the settlement and record of rent rate operations in the State. As such there are no rules prescribing principles and practices underlying the systems of settlement. In the past, officers either from the U.P. or the Punjab were appointed to carry on the settlements and therefore the system at present is akin to the systems prevailing in those States.

There are several types of land tenures in the State, the most important being *Istimary* for which assessment was fixed in perpetuity in the year 1874. Other important tenures are '*Jagir*', '*Khalsa*' and '*Muafi*'. No records existed in the past for the *Istimary* areas though some records were prepared in the '*jagirs*' for the purpose of

imposition of cesses. Preparation of detailed records has, however now been undertaken in all such areas.

The State Government are now taking steps to abolish all types of intermediaries.

18. BHOPAL

The land revenue system is ryotwari throughout the State and is governed by the Bhopal Land Revenue Code. The survey and settlement were introduced in the State in 1923. Since then, no resettlement has been undertaken by the State even though the settlement period of twenty years has already expired.

The basis of assessment is the net assets. The gross assets are first calculated by soil rates and after deducting the cost of production, etc., net assets for each number are worked out. The land revenue so fixed for each number has been in the neighbourhood of 33 per cent. of the net assets.

19. COORG

The land revenue system is ryotwari and follows the Madras pattern. The State lands can be divided into two broad categories—lands held by Government and by private individuals. Government lands cover the reserved forest, sacred forests (assigned to deity or temple), village forests, etc. Private lands include the *Jama* lands (granted for military service), *Umbli* lands (granted for meritorious services), *Jagir* lands, etc.

The survey and settlement of the lands date back to 1805. At intervals, summary settlements were made by the Rajas of Coorg. A general reassessment of land revenue was undertaken between 1907 and 1913, and assessment was fixed in respect of various holdings according to the nature of cultivation and fertility of the soil. Transport facilities, nearness to markets, etc., are also taken into consideration while fixing the rates of assessments. The period of settlement is 30 years.

20. DELHI

Having been carved out of the two States of U.P. and Punjab, Delhi, since its inception as a separate State, has been governed by the agrarian and revenue laws of those two States. An attempt is, however, being made now to regulate this on a uniform basis.

According to the new Land Reforms Bill the aggregate land revenue payable by the peasant proprietors (Bhoomidhars) in the village is to be deemed the land revenue assessed on the village.

The areas under settlement are to be divided into assessment circles and land classified according to the soil. In assessing the revenue for a holding, the land revenue is to be based on the estimated average surplus produce of such holding after deducting the ordinary expenses of cultivation.

The revenue is to be a percentage of the surplus produce, which is to be fixed by the Chief Commissioner on the recommendations of the Settlement Officer. The percentage of revenue to the surplus produce varies according to a graduated scale.

The term of settlement is generally 30 years.

21. HIMACHAL PRADESH

This State is formed by the union of 30 hill states each having its own characteristic system of land revenue. In some of these states, land revenue was collected in kind at the time of integration, and some areas were unsurveyed and unsettled.

The Punjab Land Revenue Act has now been adopted in the entire State and as in the Punjab, various classes of soil are subject to different rates of assessment based on the 'net assets' derived therefrom in the previous years.

Irrigated lands as compared to unirrigated lands are naturally subjected to heavier rate of assessment, the net assets of such lands being higher.

As in interim arrangement, in the parts in which land revenue was collected in kind, the land revenue has now been commuted into cash on the basis of average money value of the demand. This arrangement is for a short term of years, as the State wants to settle all these areas afresh.

The term of settlement is 40 years.

22. KUTCH

The State has adopted the Bombay Land Revenue Code and the features of the land revenue system are the same as that prevailing in Bombay.

23. MANIPUR

The system of land revenue in this State is generally the same as in Assam and the Assam Land Revenue Code is adopted in this State.

24. TRIPURA

The land revenue system of the State is similar to that of Assam, i.e., the ryotwari system obtains throughout the State. The rate of rent assessed is very low if the land is hilly and un-reclaimed but it is increased after some years when the land reclaimed becomes productive.

As regards Survey and Settlement, scattered areas in different sub-divisions are taken up occasionally for survey, settlement and resettlement. Generally, compass surveying is done because of the hilly nature of the tract. Agricultural land is not generally allowed to be converted into non-agricultural land, but in special cases such conversion is allowed subject to payment of increased assessment.

25. VINDHYA PRADESH

Vindhya Pradesh came into being in April 1948, with the union of 35 States of the erstwhile Central India Agency. Some of these were later integrated with the neighbouring States, as a result of exchange of enclaves, in January 1950.

From the point of view of types of tenure the State can be broadly classified into two areas—Bundelkhand and Baghelkhand. The

former is predominantly a ryotwari tenure and the latter has both *pawais* (akin to zamindari) and ryotwari tenures. In the ryotwari area, assessment is fixed with reference to the annual rent of the whole village or the circle. Some variations to suit the particular circumstances are made in assessment here and there, taking care that the assessment does not exceed one-fifth of the gross produce and that the enhancement on the pre-existing rents does not go above 33 per cent. The *pawaidars* are assessed on the basis of the gross assets of the *pawai*. The assessment varies from a nominal percentage to 55 per cent. of the assets of a village. The term of settlement varies from twelve to twenty years.



सत्यमेव जयते

APPENDIX B

Details regarding the present position of settlements in different States

Sr. No.	Name of the State	The areas that have either merged into or constitute the State	Term of settlement	Basis of assessment	Limit of amount	State of settlement and reasons if any for delay in undertaking settlements as they fall due	Remarks
1	2	3	4	5	6	7	8
1.	Punjab	(1) Loharu (2) Dujana (3) Pataudi	40 years	Net assets	25 per cent. of net assets.	Resettlements in all the districts except Amritsar, Gurgaon and Kulu Sub-division in Kangra District are overdue. On account of the problems created by partition, it has not been possible to undertake resettlement operations. Besides consolidation work is in progress in all the districts and it is considered better to undertake resettlement after that work is completed. The consolidation operations are expected to be finalised by 1958 and it has been decided to postpone resettlement work till then. The entire trained staff that could be put on resettlement work is at present engaged in consolidation work and this too necessitates postponement of settlement operations.	The rates in the merged areas are generally higher than those in the major State.
2.	Uttar Pradesh	(1) Tehri Garhwal (2) Banaras	40 years	Net assets	Generally 40 to 45 per cent. of the net	The last cycle of Settlement operations in the State had	

APPENDIX B—contd.
Details regarding the present position of settlements in different States—contd.

Sr. No.	Name of the State	The areas that have either merged into or constitute the State	Term of settlement	Basis of assessment	Limit of amount	State of settlement and reasons if any for delay in undertaking settlements as they fall due	Remarks
1	2	3	4	5	6	7	8
Uttar Pradesh—contd. (3) Rampur.							
						been started in 1929 but soon after the country was overtaken by severe economic depression, on account of which the settlement operations were to be put off. They were again started in 1936 but because of the economic depression then prevailing it was provided that rent and revenue were to be fixed on the basis of the level of the prices prevailing in 1901-1905. War started in 1939 and the operations had to be given up for that reason. By 1944, all these operations were given up. The Zamindari Abolition Act has provided that no fresh settlement is to take place within 40 years of the vesting of Zamindari estates in Government.	
				assets ; under special circumstances it would be less, the minimum being 25 per cent. (After the introduction of recent legislation on abolition of Zamindari, the entire assets are taken as land revenue).			
3.	Madhya Pradesh .	(1) Nandgaon (2) Bastar (3) Kankar	20—30 years	Net assets	75 per cent. of the net assets. (The percentage was 50	The last round of settlements in the State was conducted from 1910 to 1932. No	

- Udaipur
(4) Sakti
(5) Chhuikhadan
(6) Raigarh
(7) Kawardha
(8) Sarangarh
(9) Korea
(10) Khairgarh
(11) Surguja
(12) Jasipur
(13) Changbhakar
(14) Makrai.

but was raised to 75 immediately before the introduction of recent legislation. After abolition of Zamindari the entire net assets are taken as land revenue).

settlements have taken place thereafter. Reasons are : The resettlement operations in many districts had become due before World War II, which was the period of depression and it was not considered desirable to take up the resettlement operations at that time for this and other administrative reasons.

(2) During the period of war it was not possible on account of preoccupation of the Government with war efforts and resettlements were postponed from year to year for these and other administrative reasons. The State Govt. have decided to start resettlement operations in six districts. It is not possible to start resettlement in all districts for want of necessary trained technical personnel.



10-40
years.

- (1) Patiala
(2) Kapurthala
(3) Nabha
(4) Jind
(5) Faridkot
(6) Kalsia
(7) Nalagarh
(8) Malerkotla.

Net assets One fourth of net
assets.

The settlement operations are held overpending completion of consolidation of holdings. At present the percentage of assets taken as land revenue differs from 1/2 in Patiala, Nabha (part) and Faridkot, Kapurthala, Nalagarh and Kalsia, 1/3rd in Nabha (part) to 'nearly full' in Malerkotla.

APPENDIX B—contd.
Details regarding the present position of settlements in different States—contd.

Sr. No.	Name of the State	The areas that have either merged into or constitute the State	Term of settlement	Basis of assessment	Limit of amount	State of settlement and reasons if any for delay in undertaking settlements as they fall due	Remarks
1	2	3	4	5	6	7	8
5.	Himachal Pradesh	(1) Tharoch (2) Chamba (3) Mandi (4) Suket (5) Keonthal (6) Sirmur (7) Baghat (8) Balsan (9) Bashaha (10) Jubbal (11) Mahlog (12) Dharni (13) Bhajji (14) Kuthar (15) Kumar Sain (16) Baghal (17) Manghal (18) Kunihar (19) Darkoti (20) Sangri (21) Beja (22) Delath (23) Ratesh (24) Rawingarth (25) Dhadi (26) Khaneti (27) Madhav (28) Theog (29) Koti (30) Ghund.	40 years (Punjab system followed).	Net assets	25 per cent. of net assets.	The revision settlement is overdue in some units. Settlement in some of these was undertaken as far back as 1907.	



6. West Bengal . Cooch-Behar .
 15 years in the case of temporarily settled areas.

- (1) It is predominantly a permanently settled area. At the time the settlement was declared permanent, the land revenue was fixed as 10/11th of the mahal assets.
- (2) In temporarily settled areas, the assessment is fixed just as in Uttar Pradesh and Madhya Pradesh.

In the temporarily settled areas the enhancement of rent was suspended under law for a period of 20 years with effect from 27th August, 1937 so that no new resettlement can take place till 1957.

7. Bihar

- (1) Khar Sawan
 (2) Seraikhela.

30 years in temporarily settled areas.

- (1) Formed part of Bengal till 1911. About 90 per cent. of the State is permanently settled as in West Bengal.
- (2) In temporarily settled areas also the assessment is worked out as in West Bengal with effect from 1952 in the district of Purnea.

In many of the districts revisional settlement has been long overdue but could not be undertaken earlier on account of (1) intervention of World War II and (2) shortage of administrative personnel.

Shortage of administrative personnel has been further accentuated on account of the fact that a large number of officers have been employed in connection with Zamindari Abolition Scheme and other development schemes. The revisional survey and settlement operations which remained under suspension since 1934-35 have been started again with effect from 1952 in the district of Purnea.

Rents payable in the merged area are generally higher than those in the pre-merged area.

APPENDIX B—contd.
Details regarding the present position of settlements in different States—contd.

Sr. No.	Name of the State	The areas that have either merged into or constitute the State	Term of settlement	Basis of assessment	Limit of amount	State of settlement and reasons if any for delay in undertaking settlements as they fall due	Remarks
1	2	3	4	5	6	7	8
8.	Orissa	(1) Athgarh (2) Athmallick (3) Bamra (4) Baudh (5) Bonai (6) Baramba (7) Daspalla (8) Dhenkanal (9) Gangpur (10) Hindol (11) Kala Handi (12) Keonjhar (13) Khanpara (14) Mayurbhanj (15) Narsinghpur (16) Nayagarh (17) Nilgiri (18) Pallahara (19) Patna (20) Rairakhol (21) Ranpur (22) Sonapur (23) Talcher (24) Tigiria.	30 years			Cuttack, Puri and Balasore.—The land in these districts is mostly permanently settled as in West Bengal. Sambalpur.—The assessment is generally worked out as in M.P. ex-malguzari area. Ganjam & Koraput.—The assessment is worked out as in the ryotwari area in Madras. Resettlements fell due in the year 1942 and thereafter in different parts of the State of Orissa, and from 1936 in different parts of the merged territories. Resettlement operations could not be taken up for the duration of the War for obvious reasons. In the post-war period the available personnel of the Government was engaged in the execution of post-war development plans and consequently Govt. were faced with dearth of trained personnel to take up resettlement operations. In the year 1951 firm programme to take up resettlement operations where they fell due was prepared to be implemented. Hardly had the work commenced when the programme had to be curtailed due to financial stringency and the operations had to be confined to the tracts where they had already been started. In most of the merged territories where rents have been settled, there are no codified laws at all and in such territories rents have been settled following the customs.	

The rates of assessment on dry lands and wet lands in the merged areas are generally lower than those in the adjoining ryotwari areas.

In 1937, the Govt. of Madras passed orders that no resettlement operations should be undertaken in future. These orders are still in force.

Net produce 50 per cent. of the net produce.

9. Madras (including Andhra).
 (1) Banganapalle
 (2) Pudukkottai
 (3) Sandur.

Broadly speaking pitch of assessment in the merged areas is generally much more than that of pre-merged Bombay State. In order to remove disparity in rates Govt. have ordered that if the assessment in the merged areas exceeds 20 per cent. of the assessments in the adjacent Bombay area, the excess burden should be reduced by remission of land revenue by executive orders.

Because of the popular objections to rental value as the basis of assessment fortified by the enquiry on the revision settlement of Bardoli Taluqa, no revisions were undertaken during the period 1930 to 1939. During the War period a rise in wholesale prices and the general inflationary conditions that were then witnessed were both considered unstable and abnormal condition for revision settlement that have to be guaranteed for a period of 30 years. During the post-war period before revisions could be considered in the former British districts came the merger of States which added 43 per cent. to the assessed area which increased from 32.3 million acres to 46.2 million acres. In the merged areas over 4 million acres of land were not even settled by a systematic settlement procedure.

35 per cent. of the average rental value of land for five years immediately preceding the year of settlement.

Empirical

30 years

10. Bombay
 (1) Ambaliara
 (2) Balasinor
 (3) Bansda
 (4) Baria
 (5) Bhaderva
 (6) Cambay
 (7) Chhota Udepur
 (8) Danta
 (9) Dharampur
 (10) Ghodasar
 (11) Idar
 (12) Ilol
 (13) Jambughoda
 (14) Jawhar
 (15) Khadal
 (16) Katosan
 (17) Lunawada
 (18) Malpur
 (19) Mohanpur
 (20) Mansa
 (21) Palanpur
 (22) Punadra
 (23) Radhanpur
 (24) Ranasan
 (25) Rajpipla
 (26) Sachin
 (27) Sant
 (28) Sudasna
 (29) Surgana
 (30) Valasna
 (31) Varsoda



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APPENDIX B—contd.
Details regarding the present position of settlements in different States—contd.

Sr. No.	Name of the State	The areas that have either merged into or constitute the State	Term of settlement	Basis of assessment	Limit of amount	State of settlement and reasons if any for delay in undertaking settlements as they fall due	Remarks
1	2	3	4	5	6	7	8
Bombay—contd.							
		(32) Vesna					
		(33) Vijayanagar					
		(34) Wao					
		(35) Sanjeli					
		(36) Tharad					
		(37) Vakhtapur					
		(38) Likhi					
		(39) Mandva					
		(40) Dedrota					
		(41) Hapa					
		(42) Sathamba					
		(43) Umata					
		(44) Magodi					
		(45) Palaj					
		(46) Tajpuri					
		(47) Prempur					
		(48) Kurundwad (Jr.)					
		(49) Akalkot					
		(50) Savanur					
		(51) Miraj (Sr.)					
		(52) Miraj (Jr.)					
		(53) Mudhol					
		(54) Phaltan					
		(55) Sangli					
		(56) Aundh					
		(57) Ramdurg					
		(58) Janjira					
		(59) Bhore					
		(60) Jamkhandi					
		(61) Jath					



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- (62) Kurundwad (Sr.)
 (63) Sawantwadi
 (64) Wadi Jagir
 (65) Baroda
 (66) Kolhapur,

ii. Assam	Certain areas of Balipara and Tirap Frontier.	30 years	Empirical	16 per cent. of the gross produce.	Resettlement of certain districts could not be undertaken when it was due. This was mainly due to World War and its effects. The period of existing settlement had to be extended at the existing rates of revenue.	House tax was being paid in lieu of land revenue in the merged areas. Steps are being taken to bring this area into line with the rest of the State as regards land settlement.
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12. Hyderabad . Nil (not affected)

30 years generally. Term varies from 15 to 20 yrs. in Telangana to 30 yrs. in Marath-wada.

Out of 138 taluqas, 60 taluqas are overdue for resettlement. Settlement of about 20 taluqas expired 20 years ago. The original survey & settlement are to be carried out in about 2000 villages. Reduction of higher rates of assessment is to be made in unsurveyed ex-jagir villages and scrutiny of survey and settlement work done by the Jagirdars' establishment is to be made.

13. Mysore

. Nil (not affected) . 30 years Empirical

In 42 taluqas, the period of settlement has expired and operations have been started and are likely to be completed in 1958-59.

APPENDIX B—contd.
Details regarding the present position of settlements in different States—contd.

Sr. No.	Name of the State	The areas that have either merged in- to or constitute the State	Term of settlement	Basis of assessment	Limit of amount	State of settlement and reasons if any for delay in under-taking settlements as they fall due	Remarks
1	2	3	4	5	6	7	8
14.	Madhya Bharat	(1) Gwalior . (2) Indore (3) Alirajpur (4) Barwani (5) Dewas (Sr.) (6) Dewas (Ir.) (7) Dhar (8) Jaora (9) Jhabua (10) Jobat (11) Kathiawara (12) Khilchipur (13) Kurwai (14) Narsingarh (15) Raigarh (16) Ratlam (17) Sailana (18) Sitamau (19) Mathwar (20) Piploda (21) Pathari (22) Muhammadgarh (23) Nimkhera (24) Jemnia (25) Rajgarh.	30 years	Empirical	1/6th of the gross produce.	In this State, survey and settle-ment were carried out in Gwalior & Indore but no uniform policy was followed. Vast unsurveyed areas were found in Alirajpur and Jobat tehsils. Out of 80 tehsils, revision settlement is overdue in 30 tehsils <i>i.e.</i> 3/8ths of the area of the entire State remains to be surveyed and settled. As lands were settled in different periods at different rates, there is disparity in rates fixed in different States.	
15.	Rajasthan	(1) Alwar . (2) Bharatpur (3) Dholpur (4) Karauli	30 years	Rental in- come in Jaipur ; in other parts	1/6th of the gross produce.	Out of the total number of 33,418 villages only 17,280 villages are settled and cash rents introduced therein.	

of the State
empirical.

In an area of 49,460 sq. miles the settlement operations are not yet initiated. Practically the entire Khalsa area is settled except Kishengarh, Shalpur & Jaisalmer. Most of the unsettled area consists of Jagir (non-Khalsa) areas.

I6. Saurashtra

(i) Nawanagar • 30 years

The position about survey and settlement is very unsatisfactory. The survey and settlement in Junagadh was made between 1895 and 1905; Bhavnagar 1923 and 1928; Nawanagar 1899 and 1916 and Wadhwan in 1918. Broadly speaking, three bases are adopted for working out the land revenue assessment in the State.

I. Cash assessment by regular scientific survey in nearly 1700 villages ;

2. Lump sum assessment worked on averages of the income for the period



(5)	Banswara
(6)	Bundi
(7)	Dungarpur
(8)	Ihalawar
(9)	Kishengarh
(10)	Kotah
(11)	Mewar
(12)	Parbargarh
(13)	Shanpura
(14)	Tonk
(15)	Jainpur
(16)	Jaisalmir
(17)	Bikaner
(18)	Jodhpur
(19)	Lawa
(20)	Kushalgarh
(21)	Nimrana
(22)	Sirohi (a portion merged with Bombay).

- (1) Navanagar
- (2) Bhaynagar
- (3) Porbandar
- (4) Dhrangadhra
- (5) Morvi
- (6) Gondal
- (7) Jafraabad
- (8) Wankanar
- (9) Palitana
- (10) Dhrol
- (11) Limbdi
- (12) Rajkot
- (13) Wadhwan
- (14) Lakhtar
- (15) Sayla
- (16) Chuda
- (17) Vala
- (18) Jasdan
- (19) Amarnagar
Thana Devli.

APPENDIX B—concl'd.
Details regarding the present position of settlements in different States—concl'd.

Sr. No.	Name of State	The area that have either merged into or constitute the State	Term of settlement	Basis of assessment	Limit of amount	State of settlement & reason if any for delay in undertaking settlements as they fall due	Remarks
2	3	4	5	6	7	8	
Saurashtra—concl'd.							
	(20) Vadia					1933 to 1947 in the 900 unalienated villages paying crop share before integration, and	
	(21) Lathi						
	(22) Muli						
	(23) Bajana						
	(24) Virpur						
	(25) Malia						
	(26) Kotda Sangani						
	(27) Jetpur						
	(28) Bulkha						
	(29) Pardi						
	(30) Khirasa						
	(31) Vanod						
	(32) Barwala						
	(33) Katodia						
	(34) Lodhika						
	(35) Vasavad						
	(36) Jalia Devan						
	(37) Zainabad						
	(38) Vithalgarh.						
17.	Bhopal	(Not affected)	20 years	Net assets	33 per cent. of net assets.	The original settlement rate was fixed in 1928 for 20 years and it has not been revised.	
18.	Travancore-Cochin.	(1) Travancore (2) Cochin.	No periodic revision in Travancore. 30 years in Cochin.	Basic land tax of Rs. 1-9-0 in Travancore. In Cochin the basis is net produce.	Uniform rate of Rs. 1-9-0 in core.		

APPENDIX C

Limits of areas for resumption for personal cultivation

<i>State</i>	<i>Area</i>
1. Bombay	50 acres. If the landlord holds an area equal to or less than 16 acres of <i>zirayat</i> land or 4 acres of irrigated or paddy or rice land, the tenant can be ejected from his whole holding. If he holds land in excess of the area, the tenant can be ejected from half of his holding. Only those land owners whose main sources of income is cultivation will have the right to resume land. (This provision applies in relation to protected tenants only.)
2. Madhya Pradesh	50 acres in Berar. No limit has been fixed in other parts of the State.
3. Orissa	33 acres.
4. Punjab	30 standard acres in the case of original inhabitants and 50 standard acres in case of displaced allottees.
5. Uttar Pradesh	8 acres. But the right of resumption will accrue only in areas in respect of which a notification has been made by the State Government.
6. Rajasthan	75 acres unirrigated land and 25 acres of irrigated land.
7. Mysore	Half of the area held by the tenant in every case and in addition where a tenant holds more than 10 acres, a percentage of tenant's share of one half, varying between 25 to 5 per cent

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APPENDIX D

Recent changes in the payment of rents in different States

<i>Name of the State</i>	<i>Maximum rent payable</i>
1. Assam	One-third of the gross produce, if the landlord supplies plough cattle; otherwise one-fourth.
2. Bihar	In the case of under-ryots paying cash rent, the rent is not to exceed 50 per cent. of the rent payable by the ryot. Produce rents are not regulated by law.
3. Bombay	One-sixth of the gross produce, and cash rent is not to exceed Rs. 20 per acre.
4. Madhya Pradesh	Rent payable by tenants in Berar and sub-tenants in other parts of the State is not regulated by law. It usually varies from one-half to one-third of the gross produce.
5. Orissa	Crop rent is not to exceed two-fifths of the gross produce.
6. Madras	In Tanjore, three-fifths of the gross produce of the principal crop. In Malabar, half of the net produce or one-fourth of the gross produce in case of wet land and three times the annual assessment in case of dry lands. In other parts, it is not regulated by law and varies generally from three-fourths to one-third of the gross produce.
7. Punjab	One-third of the gross produce.
8. Uttar Pradesh	Rent payable by existing sub-tenants (Adivasis) is not to exceed $133\frac{1}{3}$ per cent. of the hereditary rent rate.
9. West Bengal	Crop-sharers using their own bullocks will pay one-third of the gross produce after making an allowance for seed, and two-thirds where bullocks and implements are provided by the landlord.
10. Hyderabad	Between four and five times the land revenue depending upon the class of land.
11. Madhya Bharat	Twice the assessment in case of sub-tenants.
12. PEPSU	One-third of the gross produce.
13. Rajasthan	One-sixth of the gross produce.
14. Mysore	Half of the produce.
15. Travancore-Cochin	In Cochin the rents payable by tenants-at-will (<i>Verumpattam</i> tenants) cannot be enhanced or reduced. In Travancore there is no law limiting the rent.
16. Himachal Pradesh	One-third of the produce (proposed).
17. Delhi	One-fifth of the gross produce.
18. Ajmer-Merwara	One-fifth of the produce (excluding chaff) in case of non-occupancy tenants. Rent payable by sub-tenants is not regulated.

APPENDIX E

Changes in the rate of Land Revenue brought about by the recent land reforms

State	Present position	
	Class of tenants	Rate of levy
1. Bombay . . .	No change in land revenue . . .	It will be the same as fixed on the land during the Survey and Settlement or on an <i>ad hoc</i> basis.
2. Assam . . .	Land revenue will be the same as applicable to similar lands under ryotwari settlement.	
3. Madras . . .	Land revenue will be the same as applicable to similar lands under ryotwari.	
4. Uttar Pradesh . . .	1. Intermediary	Rate payable in the previous agricultural year.
	2. Fixed rate tenant	Equal to rent payable by him on the date of vesting.
	3. Occupancy tenants on Patta Dawami or Istamrari possessing the right to transfer the holding by sale, who have newly become Bhumidars.	Equal to an amount of rent payable by them before vesting.
	4. Bhumidars recognised as such under section 18(2).	Equal to an amount of half the rent payable by him before vesting, subject to the condition that if the rent was more than double the amount computed at hereditary rate, land revenue is to be equal to the amount computed at such rate.
	5. If the Bhumidari right is acquired under section 137.	Equal to half the amount of rent before the date of vesting.
	6. Sirdar who has acquired Bhumidari rights under section 139.	Equal to half the amount of revenue payable on admission.
	7. Adhivasis, who are declared as Bhumidars.	The amount to be determined on principles to be prescribed.
	8. Cultivators who were recognised as Sirdars under section 19.	Equal to rent payable before the date of vesting.

APPENDIX E—contd.

Changes in the rate of Land Revenue brought about by the recent land reforms—contd.

		Present position	
State	Class of tenants	Rate of levy	
5. Delhi	1. Bhumidar deemed as non-occupancy tenant under section 10 or 12 of Delhi Land Reforms Bill, 1953.	One half of the amount of rent payable for the Fasli year, subject to condition that the new land revenue is not to be more than double or less than the former land revenue.	
	2. All sub-tenants who have been declared as Bhumidars.	One half of the amount of rent payable for the Fasli year, subject to the condition that the new land revenue is not to be more than double or less than the former land revenue.	
	3. Asamis admitted as Bhumidars by the Gaon Sabha.	50 per cent. of the rent collected at the village rate.	
6. Madhya Pradesh	Malik Makbuzas	Seven-eighths of the sum payable as rent in the previous year.	
7. Madhya Bharat	Pucca tenants	According to the village rate.	
8. Orissa	1. Intermediaries on homesteads and intermediaries holding homesteads and building together with lands on which such buildings stand and used as golas, factories or mills.	Fair and equitable rent as may be determined by the Collector. Homesteads in their actual possession which were not subjected to ground-rent before are allowed to continue free of ground-rent.	
	2. Land for agricultural and horticultural purposes in Khas possession of an intermediary held by temporary lessee of an intermediary who owns less than 33 acres of land and such lands in possession of a mortgagee which were in Khas possession of an intermediary.	Fair and equitable rent determined by the Collector.	
9. Bihar	Homesteads of proprietors of tenure holders.	Free of rent. If such lands are let out, they are liable to fair and equitable rent to be determined by the Collector.	
	Buildings together with lands on which such buildings stand in possession of proprietors and tenure-holders and used as Golas, factories or mills.	Fair and equitable ground rent to be determined by the Collector.	
10. East Punjab	Occupancy tenants and Adna Maliks who have just acquired proprietary rights.	Land revenue as fixed on the land.	

Changes in the rate of Land Revenue brought about by the recent land reforms—concl'd.

State	Present position	
	Class of tenants	Rate of levy
11. Rajasthan	All Jagir lands are liable to payment of land revenue under the Rajasthan Land Reforms and Resumption of Jagirs Act, 1952. But the Jagirdars are given concessions in payment of land revenue. For the agricultural year 1951-52, they had to pay land revenue equal to the amount of tribute payable to Government for that year. From the agricultural years 1952-53 to 1956-57, the land revenue payable is equal to one-eighth of the rental income from the Jagir land. From 1957-58 onwards, the land revenue is to be equal to one-fourth of the rental income.	
12. Saurashtra	Girasdars in respect of the land for which rent is payable to him by a tenant.	12½ per cent. of the assessment of the land.
	Girasdars of A Class	Full assessment on the date of enforcement of the Act.
	Girasdars of B Class	4 annas per acre for the first 3 years ; 8 annas for the next 3 years ; half the assessment for the next 5 years ; and full assessment from the 12th year.
	Girasdars of C Class	4 annas per acre for 21 years and full assessment thereafter.
	(The above scale is subject to the condition that if the lands are transferred by sale, mortgage with possession or otherwise, they become liable to full assessment.)	
	Barkhalidar in whose estate the agricultural land was equal to two economic holdings or less.	4 annas per acre for the first 4 years ; 8 annas per acre for the next 6 years ; half the assessment for the next 8 years ; and full assessment after 18 years.
	Barkhalidar having above two economic holdings.	Full assessment.
13. West Bengal	Raiyat or non-agricultural tenant.	His previous rent and other dues in respect of the land.
	Intermediary	If the land be agricultural land, on the basis of the rate of rent paid by ryots for lands similarly situated in the neighbourhood. If the land is non-agricultural land, fair and equitable rate to be fixed by the Revenue Officer.
14. Mysore	In the case of surveyed and settled Inam village.	Amount equal to land revenue assessment fixed on such land during the survey and settlement.
	In the case of unsurveyed and unsettled Inam village.	Amount equal to land revenue assessment levied on similar lands in an adjoining unalienated village.

APPENDIX F *Statement regarding levy of non-agricultural assessment in India*

Serial No.	Name of the State	Whether non-agricultural assessment levied or not	If so, the rate of such levy	Basis of levy	Remarks
1	2	3	4	5	6
<i>Part A States</i>					
1.	Assam	Yes	Non-agricultural assessment at ten times the assessment in rural areas.	Land revenue assessment in rural areas.	
			Non-agricultural lands assessed at a higher rate in the urban areas.	Annual value in urban areas. The limit is 50 per cent. for trade sites and 25 per cent. for residential sites.	
2.	Bihar	Yes	In rural areas rents of house sites in khas mahal areas are higher. In urban areas the land is marked into three blocks : (a) for commercial purposes, (b) for residential purposes of higher income group, (c) for residential purposes of lower income group.	Rent and Salami (lump sum taken at the time of settlement) fixed by auction in case of (a). In case of (b) and (c), rents and salami fixed by the Government.	
3.	Bombay	Yes	I. For areas other than Bombay City under the Land Revenue Code, 1879. Maximum rate: (a) Rs. 50 per acre or 2 pies per	Bases differ.	Non-agricultural lands settled between : (a) 1827 and 1865 for 50 to 999 years.

Exceptions :

- (1) Revenue-free grants of land for schools, colleges, hospitals, dharamshalas, etc.
- (2) Lands granted free for assessment to Municipalities.
- (3) Lands as signed for public purposes like burial and grazing grounds.
- (4) Customary usage in the case of village sites (goathans).
- (5) Lease for over 100 years upto 999 years.

- (b) Rs. 25 per acre or 1, 2, 3 and 4 pie per square yard.

Minimum rate:

Agricultural assessment.

Standard rate:

A rate higher than the maximum of 2 pies per square yard. The rate is calculated on half the 5 per cent. of the full market value of the land.

Brick manufacture:

Non-agricultural assessment is levied at Rs. 40 per acre plus Rs. 2½ per every lakh of bricks manufactured.

II. Bombay City (the Bombay City Land Revenue Act, 1876).

The assessment depends upon the existing tenures on most of the lands. In the rest it is 5 per cent. of the market value.

4. Madhya Pradesh . Yes . .

C.P.

1. At the time of grant, ground-rent at one anna in a rupee of the premium of the grant.

2. At renewal, rent is calculated at one anna in the rupee on half the freehold value.

3. Abadi lands not assessed . .

Freehold value which is equal to premium or sale price plus sixteen times the assessment of the ground-rent.

Period of lease is 30 years and is renewable. 4/5th of the receipts from nazul revenue excluding premium on sale are paid to local bodies, after meeting the cost of collection.

Freehold value which is equal to price of the occupancy right plus 2½ times the assessment.

1. Madras city rent is fixed at a figure slightly below the estimated competitive annual rental value.

2. In mufassal, there are ground rents of (a) the Madras type and (b) at a flat rate of Rs. 6-4-0 and Rs. 12-8-0 per acre.

5. Madras . . Yes . .

Period of lease is ten years.

- (b) 1865 and 1879, for 30 years.
- (c) 1879 and 1906, for 99 years.
- (d) 1906 and 1929, for 50 years.
- (e) After 1929, for 30 years.

APPENDIX F—contd.
Statement regarding levy of non-agricultural assessment in India—contd.

1	2	3	4	5	6
	Madras—contd.				
			3. In rural area there is no change in assessment, in case agricultural land is used for non-agricultural purposes.		
6. Orissa		(1) Conversion of agricultural to non-agricultural land prohibited.	Rents of house sites in certain khas mahal areas are higher than rates of agricultural land.	Does not arise.	
7. East Punjab		Not levied till 1952. Provision made by amending the Punjab Land Revenue Act.	Rules are still being framed.		
8. Uttar Pradesh		Not levied . . .	No distinction between agricultural and non-agricultural uses.	Does not arise.	
9. West Bengal		Yes . . .	A reduction of 30 per cent. of gross rental as proprietary allowance is given. Rest taken as assessment.	Gross rental value.	
Part B States					
1. Hyderabad		..	..	..	
2. Mysore		Yes . . .	Levy of conversion fine and special assessment in rural and urban areas.		

There is a provision for imposition of such a tax but actually not much is being realised.

		Value of land.
3. PEPSU	No provision for levy of non-agricultural assessment.	
4. Rajasthan	Yes. Only in Jaipur city.	Non-agricultural assessment is based on the price of the land charged at 4 per cent. interest and is levied by the Urban Improvement Board.
5. Saurashtra	Yes.	The Bombay Land Revenue Code adopted.
6. Travancore-Cochin		So long as the basic land tax is there, the State does not see any need to distinguish between agricultural and non-agricultural uses.
<i>Part C States</i>		
1. Ajmer	Yes	Not levied.
2. Bhopal	Yes	In the case of non-agricultural use, the agricultural assessment is raised by 50 to 100 per cent. and half of the cumulative land revenue payable upto the end of the settlement is recovered as premium.
3. Delhi	No.	
4. Himachal Pradesh	No	No distinction is made in the levy of assessment on the use of land for agricultural and non-agricultural purposes.
5. Kutch	Yes	The Bombay Land Revenue Code has been adopted.
6. Vindhya Pradesh	Yes	If land is used for purposes unconnected with agriculture as brick-making, pottery, factory, building, etc., Rs. 5 per acre is charged as rent in Baghelkhand. In Bundelkhand, there appears to be no one rule. In Tikamgarh, the rent for such use is charged at the rate of Rs. 5 to Rs. 15 per acre per annum. When such area is included in urban area,

The State reply suggests that there should be a very heavy assessment bordering on punishment to checkmate the tendency to put agricultural land to non-agricultural uses in rural areas.

APPENDIX F—concl'd.
Statement regarding levy of non-agricultural assessment in India—concl'd.

6

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4

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1

it is treated like other land in that area and the Municipality charges 4 annas per square ft. for the purpose of shops and 2 annas per sq. ft. for the use of land for other purposes.

Even if the land is classified as non-agricultural, but is not 'abadi' and is used for the purpose unconnected with agriculture, a charge of Rs. 5 per acre is levied in Baghelkhand. In Bundelkhand, such uses are charged but there is no uniformity in practice.

STATISTICAL APPENDICES

RELATING TO LAND REVENUE, AGRICULTURAL
INCOME-TAX, IRRIGATION CHARGES AND
BETTERMENT LEVY

सत्यमेव जयते



सत्यमेव जयते

STATISTICAL APPENDIX 1

Statement showing information about compensation for abolition of Zamindaris and Jagirs

Name of the State	Basis of assessment of compensation	Rate of compensation	Interim payment of compensation	Total Compensation (in crores of Rs.)	Additional land revenue (in crores of Rs.)
(1)	(2)	(3)	(4)	(5)	(6)
JAGIRS					
Rajasthan	Net income	Ten times	One-tenth of the estimated amount.	5.7	1.00
Madhya Bharat	Net income	Seven times	Do.	3.87	0.70
Vindhya Pradesh.	Net income	Ten to fifteen times.	Do.	1.99	0.26
Hyderabad	Basic annual revenue.	Graded	Interim allowances.	18.00	3.50
Bombay	Annual land revenue.	Three to ten	..	1.12	0.47
Saurashtra (Barkhali)	Do.	Fifteen to eightteentimes (from tenants).	..	2.17	0.27
Bhopal	Annual income	Six to fifteen times the annual income.	..	0.20	0.08 to 0.10
Madhya Pradesh.	Annual income	Without payment of compensation.	..	..	..
TOTAL				33.05	6.28
ZAMINDARIS					
Uttar Pradesh	Net assets	Eight times the net assets.	Provision made under rules.	140.00	12.00
Orissa	Net income	Varies from fifteen to three times the net income of Rs. 500 to Rs. 40,000 and more.	1/30th of the estimated amount.	9.00	0.44
Madhya Pradesh.	Net income	Ten times the net income.	One-tenth of the estimated amount.	4.89	0.92

STATISTICAL APPENDIX 1—contd.

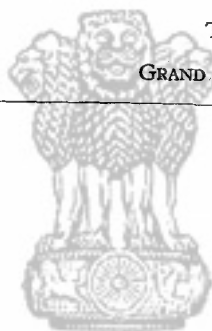
Statement showing information about compensation for abolition of Zamindaris and Jagirs—contd.

Name of the State	Basis of assessment of compensation	Rate of compensation	Interim payment of compensation	Total Compensation (in crores of Rs.)	Additional land revenue (in crores of Rs.)
(1)	(2)	(3)	(4)	(5)	(6)
Madhya Bharat	Net income	Eight times the net income.	One-tenth of the estimated amount.	6.20	0.81
Assam	Net income	Fifteen to three times the net income for Rs. 1,000 to Rs. 3 lakhs and more.	2½ per cent. of the probable amount in cash every year.	5.00	0.20
Punjab	Annual rent and other dues.	Eight times the rent and dues.	Not necessary.	..	..
PEPS	Annual rent and other dues	Twelve times the rent including rates and cesses.	Not necessary	N.A.	Not affected.
Madras	Basic annual sum.	30 to 12½ times the annual basic sum for Rs. 1,000 to Rs. 1 lakh.	Interim payment to be made equal to the basic annual sum less the rents collected during the Fasli year.	17.15	1.00
Mysore	(a) Annual rent	Varying from 20 to 75 times.	1/10th of the estimated amount of compensation.	1.50	N.A.
	(b) land revenue.	Varying from 15 to 50 multiples.			
	(c) value of land.	Rs. 20, 40 or 75 per acre.			
Saurashtra (Girasdari)	Land revenue	Six times plus fifteen times the assessment of the lands.	Not necessary.	7.98	0.39
West Bengal	Net income	Twenty to two times the net income for Rs. 500 to an amount exceeding Rs. 1 lakh.	One-third of the net annual income.	N.A.	N.A.
Bihar	Net income	Varies from twenty to three times the net income for Rs. 500 to Rs. 1 lakh and more.	3 per cent. to 2 per cent. of Rs. 50,000.	158.00	6.50

STATISTICAL APPENDIX 1—concl'd.

*Statement showing information about compensation for abolition of
Zamindaris and Jagirs—concl'd.*

Name of the State	Basis of assessment of compen- sation	Rate of com- pensation	Interim pay- ment of com- pensation	Total Compensation (in crores of Rs.)	Additional land revenue (in crores of Rs.)
(1)	(2)	(3)	(4)	(5)	(6)
Bombay	Land revenue	..	..	3.31	0.64
Himachal Pra- desh.	Net income .	Twelve to two times the net income for Rs. 500 to a sum exceeding Rs. 2,000.	Not available	Not available.	
TOTAL .				353.03	22.91
GRAND TOTAL .				386.08	29.19



सत्यमेव जयते

Agricultural Income-tax Rates etc.

1. Year of levy	Bihar	Assam	West Bengal	Orissa	Uttar Pradesh	Hyderabad	Travancore-Cochin	Madras	Rajasthan	Coorg
	1938	1939	1944	1948	1948	1950	1951	1954	1954	1951
2. Exemption limit	Rs. 3,000	Rs. 3,000	Rs. 3,000 (b)	Rs. 5,000	Rs. 3,000 (b)	Rs. 10,000	Rs. 3,000 (a)	Rs. 3,000 (a)	Rs. 6,000 (c)	Rs. 3,500
3. Rates of levy per rupee										
(a) Agricultural Income-tax:										
On the 1st Rs. 1,500	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil—1st 2,000	Nil 1,500	Nil
On the next Rs. 1,500	9 pies	9 pies	9 pies	Nil	12 pies	6 pies	9 pies	9 pies next 3,000	6 pies 3,500	6 pies
On the next Rs. 2,000	9 pies	9 pies	9 pies	6 pies	12 pies	6 pies	9 pies	18 pies next 3,000	5,000	9 pies
On the next Rs. 5,000	18 pies	15 pies	15 pies	12 pies	12 pies	12 pies	18 pies	30 pies next 5,000	12 pies 5,000	1 as. 6p.
"	30 pies	30 pies	24 pies	18 pies	18 pies	24 pies	30 pies	42 pies next 5,000	5,000	2 as. 3p.
"	48 pies	48 pies	36 pies	30 pies	36 pies	36 pies	42 pies		21 pies	
"	48 pies	48 pies	48 pies	42 pies	36 pies	36 pies	48 pies		10,000	2 as. 6 ps.
"	48 pies	48 pies	48 pies	48 pies	48 pies	36 pies	48 pies		15,000	3 as.
"	48 pies	48 pies	48 pies	48 pies	48 pies	36 pies	48 pies			
"	48 pies	48 pies	48 pies	70 pies	48 pies	36 pies	48 pies	48 on the balance of the total income.	28 pies on balance.	4 as. on balance.
"	48 pies	48 pies	48 pies	84 pies	48 pies	36 pies	48 pies			
"	48 pies	48 pies	48 pies	96 pies	48 pies	36 pies	48 pies			
"	48 pies	48 pies	48 pies	120 pies	48 pies	36 pies	48 pies			
"	48 pies	48 pies	48 pies	120 pies	48 pies	36 pies	48 pies			

[illegible]

STATISTICAL APPENDIX 2—contd.
Agricultural Income-tax Rates, etc.—contd.

I. Year of levy	Bihar	Assam	West Bengal	Orissa	Uttar Pradesh	Hyd- ra- bad	Travan- core- Cochin	Madras	Rajasthan	Coorg
	1938	1939	1944	1948	1948	1950	1951	1954	1954	1951
<i>(b) Super-tax—contd.</i>										
On the next Rs. 5,000	54 pies				54 pies		72 pies			
"	54 pies				60 pies		72 pies			
"	60 pies				60 pies		72 pies			
"	60 pies				60 pies		72 pies			
"	60 pies				60 pies		72 pies			
"	60 pies				60 pies		72 pies			
"	60 pies				60 pies		72 pies			
"	60 pies				60 pies		72 pies			
"	60 pies				63 pies		72 pies			
On the balance	63 pies				63 pies		72 pies			

" } 30,000 60 pies
 On the balance of the total income. } 63
 " } 30,000 60 pies

NOTE 1.—(a) The exemption limit in the case of Hindu Undivided family is Rs. 6,000.

(b) Exemption is also allowed where the aggregated cultivated area of an assessee does not exceed 50 acres.

(c) Exemption is also allowed to a person owning 60 acres of irrigated land or 180 acres of un-irrigated land.

2. In the case of Hindu undivided family consisting of brothers only—

(i) *Assam.*—A flat rate of four pies per rupee if the share of a brother in the total income does not exceed Rs. 6,000 ; when the share exceeds Rs. 6,000, the rate applicable is the same as in the case of an individual.

(ii) *Orissa.*—A flat rate of three pies per rupee if the share of a brother in the total income does not exceed Rs. 5,000 ; when the share exceeds Rs. 5,000 tax is levied at the average rate *i.e.*, amount of tax payable by an individual on his total income divided by the amount of such total income.

3. In the case of a Company—*Assam* : A flat rate of four annas in the rupee on the total assessable income. (ii) *Uttar Pradesh* : A flat rate of four annas per rupee as tax and (b) one anna per rupee as super-tax on the total assessable income. (iii) *Travancore-Cochin* : Tax at maximum rate applicable on the total assessable income *plus* super-tax at the rate of 1½ annas per rupee on that income. (iv) *West Bengal* : A flat rate of 4 annas in the rupee on the whole of total agricultural income. (v) *Madras* : A flat rate of one anna and six pies in a rupee on the whole of the total agricultural income.

STATISTICAL APPENDIX 3

Systems of water charges and present schedules of water rates in certain States

State	Types of prevailing systems	Schedule of Rates
(1)	(2)	(3)
<i>Part 'A' States :</i>		
1. Bihar	1. Acreage rates (lease and Demand) Fixed with reference to price of crops: economic value of crop and increase in yield. 2. Volumetric rates on tube wells.	Long term rates . . . Rs. 6/- to 9/- Rabi . . . Rs. 4/- to 7/- Kharif . . . Rs. 8/- to 10/- Hot weather crops . . . Rs. 4/- to 15/-
2. Bombay	1. Consolidated rate on old works. 2. Acreage rates varying with crops and seasons	Sugarcane . . . Rs. 120/- per year Other perennial crops . . . Rs. 80/- Kharif . . . Rs. 6/- Rabi . . . Rs. 8/- Hot weather . . . Rs. 15/-
3. Madras	1. Consolidated rate on old works. 2. Water cess on dry lands irrigated from Government sources (fixed or differential) 3. Special project rates on major river projects	1. For six months crops : 1st class source . . . Rs. 6/- 2nd class source . . . Rs. 4/- 2. For other crops : (a) 1st and 2nd crop : 1st class . . . Rs. 4/- to 6/- 2nd class . . . Rs. 3/- to 4/8/- (b) 3rd crop : (both sources). Rs. -/12/- to 2/-
4. Punjab	(1) Occupiers rates (crop rates). (2) Canal advantage rate fixed with reference to increased rental value (3) Volumetric rate (contract basis).	Sugarcane . . . Rs. 13/8/- to 16/8 Wheat . . . Rs. 6/6/- Cotton . . . Rs. 6/12/- Rice . . . Rs. 9/12/- (Half the flow rates on lift Irrigation schemes.)
5. Uttar Pradesh	(1) Owner's rate (on increased rental value) (2) Occupier's rate (3) Volumetric rate on tube-wells.	Sugarcane . . . Rs. 8/- to 32/- Wheat . . . Rs. 10/- to 12/- Rice . . . Rs. 4/- to 14/- Cotton . . . Rs. 2/- to 4/8/- Rate on tube-wells . . . Re. 1/- per 11,000 (Half the flow rates on lift Irrigation schemes) . . . to 16,000 gallons of water.

STATISTICAL APPENDIX 3—contd.

Systems of water charges and present schedules of water rates in certain States—contd.

State	Types of prevailing systems	Schedule of Rates
(1)	(2)	(3)
6. West Bengal	1. Improvement levy (based on net additional yield). 2. Agreement rates.	Long lease (upto 6 years) Rs. 6/- Rabi and covering lease Rs. 6/8/- Improvement levy on Damodar Canal Rs. 5/8/-
7. Orissa	1. Lease rates 2. Water cess (based on price of crop and ability to pay).	Sugarcane . . . Rs. 5/8 to 7/8/- Rice . . . Rs. 4/4/- Cotton, Wheat, Rabi Crops. Rs. 2/-
<i>Part 'B' States :</i>		
8. Pepsu	1. Acreage rates varying with crops.	Sugarcane . . . Rs. 9/14/- to 15/- Cotton . . . Rs. 6/14/- Wheat . . . Rs. 6/4/- Maize . . . Rs. 6/- Oil seeds . . . Rs. 5/6 to 6/1/-
9. Mysore	1. Acreage contributions 2. Water cess 3. Water rates (based on capital cost, class of water supply and payment ability).	1. Acreage contributions Rs. 100/- to 300/- 2. Water rates Sugarcane Rs. 25 } Proposed Wet lands Rs. 10 } rates on Dry conversions Rs. 15 } new sche- Dry to semi-dry lands Rs. 7 } mes. 3. Irrigation cess at one anna per rupee of assessment on minor works.
10. Hyderabad.	Consolidated rate	Flow Irrigation . . . Rs. 7/- to 16/- Lift Irrigation . . . Rs. 2/8/- to 10/8/-
11. Travancore-Cochin.	Consolidated rate	Wet lands . . . Rs. 2/- Dry conversions . . . Rs. 7/- Lift irrigation (All lands) Rs. 25/-
12. Saurashtra	(1) Crop rates (2) Monthly rates	Wheat, Jowar, Barley, Kharif. Rs. 5 per bigha. Linseed, Turmeric, etc. Rs. 10/- per bigha. Sugarcane Fruits and Gardens } Rs. 3/- per bigha.

NOTE.—Except as otherwise stated, water rates under col. (3) are charged per acre per season.

STATISTICAL APPENDIX 4

Figures of working expenditure on some Major Canals

(In Lakhs of Rupees)

S. No.	State/Projects	Year	Gross Receipts	Working Expenses	Net Revenue (col. 3 - col. 4)	Proportion of Working Expenses to Gross Receipts ⁷
1	2	3	4	5	6	
1. Bombay:—						
	(1) Nira Left Bank	1938-39	8.23	2.24	5.99	27.22
		48-49	10.26	4.31	5.95	42.00
		49-50	9.93	4.45	5.48	44.81
		50-51	10.27	3.16	7.11	30.76
	(2) Piravara River Works	1938-39	4.79	2.97	1.82	62.00
		48-49	14.86	6.04	8.82	40.64
		49-50	13.50	4.89	8.61	36.22
		50-51	13.90	4.44	9.46	31.65
2. Bihar:—						
	(1) Dhaka Canal	1938-39	0.41	0.15	0.26	35.58
		48-49	0.61	0.96	—0.35	157.37
		49-50	0.64	0.67	—0.03	104.68
		50-51	0.65	0.44	0.21	67.69

STATISTICAL APPENDIX 4—contd.

Figures of working expenditure on some Major Canals—contd.

1	2	3	4	5	6
2. Bihar—contd.					
(2) Tribeni Canal					
	1938-39	3.06	2.14	0.92	69.96
	48-49	3.76	3.72	0.04	98.93
	49-50	4.11	4.22	—0.11	102.67
	50-51	4.04	12.84	—8.80	317.82
3. Punjab :—					
(1) Sirhind Canals					
	1938-39	50.82	12.67	38.15	24.93
	48-49	51.49	29.19	22.30	56.69
	49-50	70.58	32.53	38.05	46.08
	50-51	100.59	84.16	16.43	83.67
(2) Upper Bari Doab					
	1938-39	61.10	13.92	47.18	22.78
	48-49	55.59	33.18	22.41	59.64
	49-50	54.48	27.81	27.67	51.08
	50-51	66.99	34.24	32.75	51.11
4. Uttar Pradesh :—					
All Major Projects					
	1938-39	294.70	118.43	176.27	40.11
	48-49	362.22	300.79	61.43	83.04
	49-50	544.73	285.81	258.92	52.47
	50-51	576.93	337.17	239.76	58.44

5. Madras :—

(1) Cauvery Mettur Project						
1938-39	12.20	3.22	8.98	26.59		
48-49	18.80	7.40	11.40	39.36		
49-50	18.71	7.20	11.51	38.48		
1938-39	0.78	0.47	0.31	60.25		
48-49	4.70	3.30	1.40	70.21		
49-50	6.10	3.00	3.10	49.10		
6 Orissa :—						
(1) Orissa Canals						
1938-39	5.20	5.92	—0.72	113.84		
48-49	7.57	15.17	—7.60	200.39		
49-50	9.99	15.01	—5.02	150.29		
50-51	10.04	13.39	—3.35	133.36		
(2) Rushikulya Canal						
1938-39	1.90	1.04	0.86	54.73		
48-49	2.70	2.88	0.18	106.66		
49-50	2.93	2.24	0.69	76.45		
50-51	2.67	2.34	0.37	87.64		
7. West Bengal :—						
(1) Midnapore Canal						
1938-39	1.42	1.03	0.39	72.52		
48-49	1.53	4.09	—2.56	267.32		
49-50	1.61	8.25	—6.64	512.42		
50-51	1.15	7.48	—6.33	650.43		

STATISTICAL APPENDIX 4—concl'd.

Figures of working expenditure on some Major Canals—concl'd.

1	2	3	4	5	6
7. West Bengal—concl'd.					
(2) Damodar Canal (including Eden Canal).	1938-39	5·85	3·12	2·73	53·33
	48-49	5·77	6·39	0·62	110·74
	49-50	7·34	7·35	0·01	100·13
	50-51	8·15	8·33	0·18	102·20
Total (All Projects)					
	1938-39	450·26	177·32	272·94	39·38
	48-49	539·86	415·42	124·44	76·95
	49-50	744·65	403·43	341·22	54·17
	50-51	795·38	507·00	287·39	63·86

*Does not include figures for Madras Schemes

STATISTICAL APPENDIX 5
Receipts and Expenditure on Irrigation Account (Part A States)

S. No.	State	Year	(In Lakhs of Rupees)		Percentage to			Percentage to
			Receipts from Major Works	Receipts from Minor Works	Total Receipts (Cols. 3+4)	Interest and other charges	Total Expen- diture on Reve- nue Account	
1	2	3	4	5	6	7	8	
1	Assam	1938-39	..	..	..	0.69	0.23	
		1946-47	..	..	..	0.60	0.89	
		1951-52	..	0.06	0.06	16.10	1.52	
		1952-53	..	0.06	0.06	20.30	1.66	
		1953-54	..	0.04	0.04	23.60	1.63	
2	Bihar	1954-55	..	0.07	0.07	33.10	2.03	
		1938-39	17	17	34	15	3.04	
		1946-47	16	2	18	28	1.94	
		1951-52	—8.10	5.30	—2.8	226.80	6.91	
		1952-53	22.30	4.00	26.30	97.20	3.44	
3	Bombay	1953-54	18.20	75.90	94.10	120.20	3.39	
		1954-55	16.50	51.20	67.70	147.80	3.74	
		1938-39	15	22	37	51	4.00	
		1946-47	37	24.1	61	69	1.79	
		1951-52	35.10	14.10	49.20	171.70	2.74	
4	Madhya Pradesh	1952-53	62.10	17.60	79.70	222.60	3.25	
		1953-54	72.10	17.10	89.20	351.30	4.87	
		1954-55	103.30	28.90	132.20	177.50	2.45	
		1938-39	..	3	3	25	5.30	
		1946-47	..	17	17	16	1.38	
		1951-52	..	26.30	26.30	41.80	2.29	
		1952-53	..	26.50	26.50	26.90	1.37	
		1953-54	..	27.20	27.20	96.20	3.81	
		1954-55	..	24.40	24.40	84.80	2.76	

STATISTICAL APPENDIX 5—contd.

Receipts and Expenditure on Irrigation Account (Part A States)—contd. (In Lakhs of Rupees)

S. No.	State	Year	Receipts from Major Works	Receipts from Minor Works	Total Receipts (Cols. 3+4)	Percentage to Total Revenue	Interest and other charges	Percentage to Total Expendi- ture on Revenue Account
1	2	3	4	5	6	7	8	
5	Punjab	1938-39	450	1	451	39.70	150	12.92
		1946-47	578	3	581	22.42	219	8.26
		1951-52	153.70	20.40	174.10	9.58	114.20	6.94
		1952-53	185.80	1.20	187	9.98	63.40	3.75
		1953-54	160.80	15.60	176.40	9.40	80	4.09
		1954-55	150.40	9.60	160	7.21	113.60	4.91
6	Madras	1938-39	96	154	250	15.35	127	7.88
		1946-47	123	119	242	4.24	185	3.25
		1951-52	77.40	83.20	160.70	2.70	321.70	4.99
		1952-53	37.70	86.30	124	2.12	386.50	5.65
		1953-54	31.50	20.10	51.60	2.04	115.50	4.37
		1954-55	52.90	39.10	92	2.04	240.74	5.32
7	Orissa	1938-39	..	2	2	1.09	13	6.18
		1946-47	8	2	6	1.30	28	6.23
		1951-52	0.17	2.20	2.37	0.18	99.50	9.16
		1952-53	3.30	1.10	4.40	0.32	100.50	8.10
		1953-54	5.9	1.70	4.20	0.33	90.20	6.14
		1954-55	6.20	1.70	4.50	0.31	46.60	3.13
8	Uttar Pradesh	1938-39	177	..	177	12.82	113	8.98
		1946-47	190	2.00	192	5.88	158	3.20
		1951-52	319.30	2.70	322	5.79	256.40	4.61
		1952-53	310.60	1.20	311.80	4.87	265.90	4.10
		1953-54	415.90	0.60	416.50	5.66	301.70	4.08
		1954-55	414.40	0.60	515.10	6.67	334.30	4.13

STATISTICAL APPENDIX 5—concl'd.

Receipts and Expenditure on Irrigation Account (Part B States)

(In Lakhs of Rupees)

S. No.	State	Year	Receipts from Major Works	Receipts from Minor Works	Total Receipts (cols. 3+4)	Percentage to Total Revenue	Interest and other charges	Percentage to Total Expen- diture on Reve- nue Account
1	2	3	4	5	6	7	8	
1	Hyderabad	1951-52	—8.05	1.04	—7.01	—0.23	122.3	4.33
		1952-53	—11.0	2.0	—9.0	—0.33	59.4	2.34
		1953-54	1.8	37.3	39.1	1.50	84.2	3.06
		1954-55	1.6	53.7	55.3	1.97	106.9	3.61
2	Mysore	1951-52	3.14	..	3.14	0.16	89.8	4.89
		1952-53	9.3	26.0	35.3	1.87	84.0	4.65
		1953-54	1.9	..	1.9	0.09	62.4	2.83
		1954-55	6.5	..	6.5	0.30	57.9	2.34
3	Rajasthan	1952-53	15.4	22.0	37.4	2.06	81.3	5.10
		1953-54	17.7	29.2	46.9	2.49	102.7	5.38
		1954-55	19.4	34.4	53.8	2.49	88.03	4.08
4	Madhya Bharat	1951-52	..	13.7	13.7	1.19	40.8	3.61
		1952-53	..	11.2	11.2	0.49	41.0	3.31
		1953-54	..	16.7	16.7	1.18	70.0	4.39
		1954-55	..	20.2	20.2	1.33	82.8	5.52
5	Saurashtra	1952-53	—0.04	3.7	3.66	0.37	30.3	2.57
		1953-54	0.07	2.4	2.47	0.25	37.4	3.79
		1954-55	2	2.7	4.7	0.41	58.3	4.93
6	Travancore-Cochin	1951-52	—0.5	7.9	7.4	0.41	62.1	4.55
		1952-53	—1.0	3.3	2.3	0.13	80.4	4.97
		1953-54	—1.4	2.9	1.5	0.08	72.0	4.45
		1954-55	—1.4	8.8	7.4	0.42	91.24	4.90

7	PEPSU	1951-52	37	..	37	0.67	0.35	0.07
		1952-53	35.0	1.3	36.3	5.88	1.2	0.22
		1953-54	39.7	3.0	42.7	6.13	9.2	1.26
		1954-55	34.3	0.7	35	4.77	2.9	0.39
TOTAL—Part B States		1951-52	31.59	22.64	54.23	0.64	315.35	4.14
		1952-53	47.66	69.50	117.16	1.19	376.60	3.59
		1953-54	59.77	90.50	150.27	1.34	437.90	3.78
		1954-55	62.40	120.5	182.90	1.63	488.03	3.54
GRAND TOTAL—A & B States.		1951-52	599.86	181.10	780.96	1.95	1658.35	4.31
		1952-53	658.56	215.36	873.92	2.29	1688.70	3.88
		1953-54	776.17	286.34	1062.51	2.47	1866.70	3.96
		1954-55	937.30	330.17	1267.47	2.62	2097.93	3.98

N.B.—(i) figures for 1954-55 are budget estimates and for 1953-54 are revised estimates.

(ii) figures for 1951-52 for Rajasthan and Saurashtra are not available.

STATISTICAL APPENDIX No. 6

Important Features of Betterment Levy

State/Authority	Objective of levy	Basis of levy	Quantum of levy and instalments	Assessment procedure and methods	When applicable	Other particulars
1	2	3	4	5	6	7
1. Assam The Assam Embankment and Drainage Act, 1953).	To recover initial cost of scheme (in full or in part) and maintenance expenditure.	Degree of benefits conferred on full or in part and maintenance expenditure.	The charge should not exceed : (i) 6 per cent. per annum on first cost adding thereto annual maintenance and supervision costs; (ii) Subject to maximum given in (i) above, the rate may be varied from time to time.	..	Applicable on lands benefited before commencement of Act.	
2. Bombay (The Bombay Irrigation Act, 1879 as amended).	To tax the unearned increment in value of land.	Increase in capital value of land.	50 per cent. of increased value. Payable in instalments not exceeding twenty with 5 per cent. interest per annum on unpaid balance. Land can be surrendered if it is free from all encumbrances and money value is fixed by Government.	Assessment and collection is done by Revenue Department. Increased land value is estimated by settlement officer from an enquiry into sale transactions and rentals or by Panchnama.	Not applicable on works already completed and functioning since before 1950.	
3. Punjab (Punjab Betterment charges and Acreage Rates Act, 1952).	To tax unearned increment for repayment of loan capital.	Increase in value of land.	The levy will not exceed 50 per cent. of the difference in value of lands. Half the normal charges on lift irrigation schemes.	The value of land is computed at thirty times the value of net assets. Land can be surrendered provided (i) it is free from	One year after completion of scheme.	Betterment levy is not imposed in relation to a scheme where normal charges

are adequate to cover the cost and the levy is limited to the difference between investment on the scheme and such part of it as may make it productive.

all encumbrances; (ii) it does not reduce the holding to less than an economic unit; and (iii) the area is in compact block of not less than five acres.

Payable in half-yearly instalments up to thirty with interest.

To tax the unearned increment in land value. The proceeds to be earmarked for re-payment of loan.

Increase in capital value of land.

The levy shall not exceed half of the difference in value of lands with reference to fixed dates. Payable in thirty half instalments with interest on arrears.

Method: In fixing Betterment Levy, the following factors will be taken into consideration:
(i) Type of irrigation;
(ii) Improvement in irrigation;
(iii) Extent of betterment accruing to lands.

One year after completion of work.

Do.

4. *PEPSU* (The *PEPSU* Betterment charges and Acreege rates Act, 1953).

Taxing unearned increment to meet State expenditure on irrigation schemes.

Increase in capital value of land.

The levy shall not exceed half of the difference in value of lands in pre-project and post-project periods. Payable in instalments with interest charges as may be prescribed. Half the normal charges on lift irrigation schemes.

Following factors will be considered while computing between betterment charge :—
(i) type of work;
(ii) extent of benefit accruing to land;
(iii) improvement in irrigation. Provision also exists

One year after completion of scheme.

Do.

5. *Rajasthan*

STATISTICAL APPENDIX No. 6—contd.
Important Features of Betterment Levy—contd.

State/Authority	Objective of levy	Basis of levy	Quantum of levy and instalments	Assessment procedure and methods	When applicable	Other particulars
1	2	3	4	5	6	7

6. *Mysore*
[Mysore irrigation
(Amendment) Act,
1952.]

To meet capital charges. ..

Increase in value of land. No definite limit for major works but in the case of minor works the rate should not exceed Rs. 200 per acre. Payable in ten annual instalments. A rebate of 7 per cent. allowed on lump payment.

7. *Hyderabad*
(The Hyderabad irriga-
tion Act 1952.).

..

Increase in value of land. Not to exceed 50 per cent. of increased value of land. Payable in fifteen equal annual instalments. Rebate of 10 per cent. if paid within six months of determination of charge.

Committee with official and non-official members will advise collectors in assessment, the following factors are considered :—

(1) Market rate of dry and wet lands in the area.

(2) Nature of soil, productivity and fitness for irrigation.

(3) Wet crops which can be grown economically.

(4) Proximity to markets.

(5) Probable expenditure involved in conversion of dry

Date to be prescribed. But not earlier than 1st Jan. 1943. The first instalment will fall due after three years from the first year of irrigation.

Any voluntary contributions are adjustable against betterment charges.

land into wet.
(6) Classification of land
(Perennial, garden land,
etc.)

8. *Anahra*

To share incre-
ase in value
of land.

Betterment charge shall not exceed one half of increase in capital value of land. Payable in thirty annual instalments with 10 per cent. rebate if paid in lump sum. Can also surrender land of equivalent value.

Payable after 2 years from date of completion of work. Applicable on projects before commencement of Act—not earlier than 15th Aug. 1947.



9. *Madras*

To share the
increase in
capital value
of land.

50 per cent. of increase exclusive of initial costs. Payable in twenty annual instalments with interest at 6 per cent. per annum on arrears. A rebate of 20 per cent. if paid within two years from the date of liability to pay betterment levy.

Method : Ten times the annual increase in gross value is the increase in capital value of land. A half of the sum by which the increase in capital value exceeds the cost of making lands fit for advantageous irrigation will be the contribution payable for such class of land. Lands will be divided into suitable classes according to estimated increase in gross

Contribution will be shared between landlord and tenant in the same proportion as the share of produce.

STATISTICAL APPENDIX No. 6—concl'd.
Important features of Betterment Levy—concl'd.

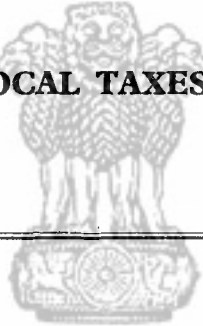
State/Authority	Objective of levy	Basis of levy	Quantum of levy and instalments	Assessment procedure and methods	When applicable	Other particulars
I	2	3	4	5	6	7

produce. Lands which are of the same 'taram' will be placed in the same class. Estimates are made with reference to average prices prevailing during three years, immediately preceding commencement or completion of work.



सत्यमेव जयते

LOCAL TAXES



सत्यमेव जयते

CHAPTER I

BACKGROUND OF LOCAL FINANCE AND TAXATION

Introduction

The background of local taxation and finance is inseparable from a picture of local self-government itself; in other words, from a picture of the institutions of local self-government as they have developed in structure, organisation and functions, and, in all these respects, as they now operate in different parts of the country and in different sectors of civic life: the city and the town, the district and the village. Any comprehensive account of either the historical development of local institutions or even of their present functioning would obviously take us far beyond the purview of this enquiry. Besides, the entire subject of the finances of local bodies was surveyed recently by the Local Finance Enquiry Committee. In this chapter, therefore, we attempt no more than a brief reference, first to the broad phases discernible in the evolution of local bodies and then to the main features which, at the present time, distinguish each of the principal categories into which the different institutions of local self-government may conveniently be classified.

2. The course of development of local self-governing bodies from the commencement of British rule up to the achievement of Independence and thereafter, may be divided into four broad stages: from the beginning to 1882; from 1882 to 1919; from 1919 to 1935; and from 1935 to the present day. The first efforts were directed to developing local self-government in the presidency towns of Madras, Bombay and Calcutta. The introduction of municipal committees in mofussil towns, at a later stage, proved more difficult and the process itself had more than one uncertain beginning. The function of these committees, according to the legislation enacted in 1842, was to provide better civic amenities, both generally and in the specific context of public health; and in order to be able to discharge this function they were empowered to levy a house tax. The prospect of direct taxation of this kind made the legislation unwelcome. All the same, municipalities were constituted in a number of towns in most of the provinces. There was, however, no comparable development of local self-governing institutions in rural areas up to the year 1871, when Lord Mayo introduced his scheme for the decentralisation of administration. The scheme had a stimulating effect on the development of local self-governing institutions in the rural areas. Both types of committees, urban and rural, it may be added, were largely nominated and official. It was implicit in decentralisation, as then conceived, that the emphasis was on the 'local', rather than on the 'self-government' aspect of local self-government.

3. It was Lord Ripon's resolution of 1882 that paved the way for the development of local self-government, specially in urban areas, with the accent on self-government. As regards the constitution of local bodies the progress was in the direction of widening the elected sector and correspondingly limiting the nominated and official elements. The functions were enlarged so as to include various aspects of public health, medical relief, and education. Along with the enlargement of functions went an increase in powers, financial responsibility and financial resources. Suitable items of provincial revenue, along with specific items of provincial expenditure, were transferred from the provincial account to the local bodies. This period is the most significant in the development of local bodies in the urban areas. In the rural areas, progress was made with the establishment of local boards. It was the usual practice to have one board for one district with sub-boards for smaller areas within it. While it was indicated that there should, preferably, be a preponderance of the elected element, in point of fact the district boards continued to contain a large element (normally more than half) of nominated and official members. The Collector was usually the president of the district board and the Sub-Divisional Officer of the sub-board. In respect of powers and functions too, the rural boards were far behind the urban institutions. Their only substantial source of income was the cess on land, but in most provinces, the boards themselves had no power either to levy or increase the rate of these cesses. In some provinces, part of the cess was appropriated by the provincial government in the discharge of provincial functions. Further, until 1908-09, the accounts and estimates of the rural boards formed part of the provincial budgets.

4. The reforms of 1919 made local self-government a transferred subject. There was a further shift of emphasis to the self-governing aspect of local institutions. Successive enactments were passed progressively eliminating the official as well as nominated elements and democratising the institutions by the widening of franchise. Simultaneously, there was an enlargement of both the functions and the powers of the local bodies. There was more specific demarcation and reservation of tax powers. The Government of India Act of 1919 laid down a schedule of taxes which could be levied only by or for the local bodies. This not merely enlarged the effective sphere of taxation, but enabled the local bodies to feel relatively independent. This position continued till the enactment of the Government of India Act, 1935. While the progress of self-government was equally pronounced both in the urban and in the rural bodies, the effectiveness of the institutions and the usefulness of the role they played differed. This period is notable for the final percolation of self-government institutions to the smallest unit of the rural area, viz., the village. In almost all States, Acts were passed providing for the formation of village panchayats for single or contiguous villages or 'union boards' for groups of villages. The pace of progress, however, was relatively slow.

5. The inauguration of provincial autonomy gave a fresh impetus to the development of local self-government both in the urban and

rural spheres. Almost all the provinces enacted legislation for the further democratisation of local self-government. This process culminated, after the attainment of Independence, in the adoption of adult franchise for elections to local bodies in almost all the States and the complete elimination of nomination, for which co-option was in some instances substituted. The functions of the local bodies were also enlarged, especially in the urban sphere. As a consequence of the integration of the former princely States with the rest of the country, the development of local self-government in those areas also received greater attention. Local bodies in many of those States were mere subordinate branches of government departments, deriving almost all their income from government subsidies. Their transformation into self-governing institutions, with their own powers, responsibilities and resources, was initiated, and in different degrees, the process is in operation in all these areas. While there was thus growth in the number of local self-governing bodies and appreciation of their place in the system of administration, there was no corresponding development of the usefulness and effectiveness of local bodies. The most important factor responsible for this state of affairs was the inadequacy of the financial resources available to the local bodies. The sources that were assigned to the local bodies were inelastic and could not provide the necessary revenues for the growing activities expected of these bodies. Further, with the steep rise in prices that took place during and after the war, local bodies found themselves faced with expenditure which was out of all proportion to their income. The result was a regrettable failure on the part of a number of local bodies to undertake even the basic functions that they were expected to perform.

6. Certain modifications in the sphere of local finance and the powers of taxation of local bodies also occurred during this period which had the effect of further weakening these institutions. Thus the incorporation in the Union List of the terminal taxes on goods carried by railways, the limitation on the amount of profession tax leviable on any one assessee and the immunity of Union properties from local taxation resulted in a contraction of the powers of taxation, and consequently of the potential resources of the local bodies, while the inclusion of only two Lists, Union and State (originally in the Government of India Act, 1935, and later in the Constitution) obliterated the legal distinction between the spheres of taxation of the local bodies and State Governments, and has created new problems in regard to the devising of an adequate and satisfactory system of local taxation and local finance. All this has affected the rural, no less than the urban, sphere of local self-government.

7. However, after the end of the War, fresh interest was created in the development of the village panchayats with the re-establishment of popular governments in the States. The Constitutional directive regarding the village panchayats gave an added impetus to this movement, and in almost all States legislation has been enacted for the purpose of forming village panchayats. The momentum gathered by the movement for establishment of new panchayats is one of the most significant developments of recent years. But this, in turn, has brought

to the fore the question of the place to be accorded hereafter to district local boards and similar bodies, part of whose jurisdiction is being taken over by village panchayats.

8. It was the need for the decentralisation of administration and the connected need for the association of Indians with administration (in order, for one thing, that taxes could be more readily imposed and collected) that prompted the early British Indian administration to embark on the introduction of local self-governing institutions in this country. The resolution of Lord Mayo (1870) on financial decentralisation also visualised the development of local self-government institutions; but this was subordinate to the need for tapping local sources of revenue and of effecting economy by decentralised administration. It was Lord Ripon's resolution (1882) that envisaged much fuller scope for local self-government. In that resolution emphasis was laid on the fact that local self-government, in the final analysis, was "chiefly desirable as an instrument of political and popular education." The Montagu-Chelmsford Reforms envisaged local self-government in India as one of the important spheres in which an advance could be made towards "the increasing association of Indians in every branch of the administration and the gradual development of self-governing institutions with a view to progressive realisation of responsible government in India." Local self-government was thus invested with definite significance in the wider process of the political advancement of the country.

9. Thus viewed, local self-government has now become an integral part of the national administrative machinery, playing the same vital role that is assigned to local self-government in other independent democratic countries. Increasingly, it is coming to be recognised in this country as that branch of administration which must eventually take charge of the expanding social services of the State. It is in this context that the efficiency of individual institutions of local self-government assumes great significance. Historically, the emphasis on efficiency has varied from time to time. When local self-government institutions were considered mere training grounds, efficiency was a matter of no great consideration. The Government of India's Resolution of 6th May 1918 laid emphasis on political education and training of the people which should take 'precedence over considerations of departmental efficiency'. It directed that official control should be reduced to the minimum. "People should learn by making mistakes and profiting by them." But as against this grant of freedom, the Simon Commission stressed the need for control by the Provincial Governments so as to raise the efficiency of local administration and pointed out that the efficiency of local government in Britain itself was due to the ever-increasing pressure by the departments of the Central Government. Until the inauguration of provincial autonomy, local self-government institutions represented the 'popular will' as against the 'alien' bureaucratic governments. Further, as the sphere in which Indian talent could play a part in defiance, when necessary, of the alien government, local bodies also attracted vigorous local leadership. This emphasis on efficiency and control by government was, therefore, unwelcome. With provincial autonomy

this antithesis has lost much of its force. An identity of interest having been brought about, the popular governments themselves felt the need to control the local bodies and raise the standards of administration. Differences of opinion, however, exist regarding the emphasis to be placed on 'efficiency' and the methods to be adopted for securing it. What control should be exercised by the State Governments over the administration of local bodies; how it should be exercised; whether local bodies should be deprived of such of their functions as they are unable to perform properly; and whether efficiency should be cultivated at the expense of democracy; all these are problems which have already arisen and call for solution. We merely mention them here as part of the background with which we are here concerned. We will refer to them again in the chapter which follows.

10. From the broad phases of historical development we have so far considered, we may turn to matters of more immediate interest and attempt to give an account of the institutions of local self-government as they function today in this country.

Present institutions of local self-government

While it will be outside our purview to examine at any great length the structure, functions, administration and finances of the different categories of local bodies in different States, some reference is obviously necessary to these wider aspects which form the context in which local taxation operates. Statistical Appendix I gives the State-wise distribution of the different kinds of local bodies. The principal urban category, viz., the municipality, has in turn to be classified into a number of distinct types. Reserving the term 'municipality' for municipal councils (or committees or boards), as distinguished from corporations, we find that the number of these is 1,426. In addition, there are small town committees and notified area committees numbering 379 and cantonment boards which number 56. The municipal corporations are very few, being twelve for the whole country. There are also Improvement Trusts and Development Boards in a few places, e.g., Calcutta, Nagpur, Kanpur and Madras; these perform the essentially municipal functions of slum clearance, improvement and development of the city, construction of houses for the poorer classes, etc. But since these trusts or boards do not exercise powers of taxation (though they are often entitled to the receipts from certain taxes), we need not treat them as local bodies for the present purpose. Likewise, the notified area committees, small town committees and cantonment boards need not be separately considered: the first two because they are analogous to very small municipalities and the last because their functions and powers are similar to those of municipalities adjoining the cantonment board areas. In the rural sector, we have 196 district boards and other rural boards, and over 87,018 village panchayats. Rural boards operate over areas smaller than a district; they are variously designated as local boards, janapada sabhas, anchal sashans, etc. It would suffice, in the account which follows, to consider rural boards along with the bigger district boards. With the four main categories which thus emerge, we propose to deal in the following order:—

- (1) Village Panchayats;
- (2) District Local Boards;

- (3) Municipalities; and
- (4) Municipal Corporations.

(1) Village Panchayats

11. The jurisdiction of a panchayat is usually confined to one revenue village; sometimes, though infrequently, two or more small villages, very near one another, are grouped under one panchayat. The rapid establishment of new panchayats is the avowed policy of most State Governments; but, in this process, it is naturally the bigger villages that are first taken up. In relation to the present stages of their programmes, therefore, certain State Governments have adopted a minimum figure of population for defining the range of villages which they wish to bring under the Panchayat system. This figure is 2,000 in Bombay, Saurashtra, Mysore and Hyderabad, 1,000 in Uttar Pradesh and Madhya Pradesh and 500 in Punjab and Madras.

12. In a few States (Madras, Bombay, Madhya Bharat and Saurashtra), panchayats are classified into two or three classes or grades on the basis of population and revenue; and those in the higher categories enjoy slightly larger powers of taxation, etc. In most States, however, no such gradation is made for the delegation of tax powers.

13. There are two types of constitution. In the first, the entire adult population of a village (men and women over the age of twenty-one) is constituted into an assembly which has corporate status as a panchayat; but there is provision for the appointment of an executive committee, and this carries on the day-to-day duties of the panchayat. The other type of panchayat is one in which the adult population of the village is merely the electorate which chooses the members of the panchayat; there is no provision for an executive committee, and the relevant powers are exercised by the President or Sarpanch with the sanction of the panchayat.

14. The first of these systems prevails in Uttar Pradesh, Bihar, Orissa, Saurashtra, Vindhya Pradesh and PEPSU. In these States, the adult population constitutes the assembly variously known as Gaon Sabha (U.P.), Gram Panchayat (Bihar), Gram Sabha (Orissa, Saurashtra, Vindhya Pradesh) or Nagar Sabha (PEPSU). The executive committee is designated Gaon Panchayat (U.P.), executive committee (Bihar), Gram Panchayat (Orissa, Saurashtra and Vindhya Pradesh), Nagar Panchayat (PEPSU). In Bihar, the members of the executive are appointed by the President (Mukhiya) or who is himself directly elected; in all the other States the executive committee is elected by the assembly. The second of the methods referred to above prevails in Andhra, Bombay, Hyderabad, Madhya Bharat, Madras, Mysore and PEPSU.

15. The 'Panchas' may thus be either members of the executive committee of the village assembly or members of the panchayat itself. The number of these differs from State to State and, within the State, from one category of panchayat to another, depending upon the population of the individual panchayat. The minimum varies from five (Madhya Pradesh, Madhya Bharat, Saurashtra and Vindhya

Pradesh, Punjab and PEPSU) to 30 (Uttar Pradesh), while the maximum varies from nine (Punjab and PEPSU) to 51 (Uttar Pradesh). Where the jurisdiction of a panchayat extends over more than one village, the Panchayat Acts and the rules framed thereunder ensure that due representation is given to each of the federated villages. Further, the Acts and rules of most States provide for the special representation of the scheduled castes and the backward classes in the executive committee or the panchayat.

16. Every Village panchayat has a president (termed 'Sabha Pati', 'Sarpanch', 'Pradhan', 'Mukhiya', etc.) and in most States there is also a vice-president. In Uttar Pradesh, Madhya Pradesh, Saurashtra, Vindhya Pradesh, PEPSU and Bihar, these office-bearers are directly elected by all the adult voters. In certain other States e.g., Bombay, Punjab, Orissa, Mysore, Hyderabad and Madhya Bharat, these are elected by the elected Panchas or members from amongst themselves.

17. The panchayat has ordinarily to meet at least once a month. It may be requisitioned more often by a prescribed number of Panchas. Where there is a village assembly, that body is required to meet at least twice a year—once after the harvesting of the *kharif* crop and again after the harvesting of the *rabi* crop. While the working committee carries on the day-to-day administration and may even formulate policies, the village assembly has to sanction the general programme of the panchayat; it also discusses and approves the progress reports, statements of accounts, etc. In Uttar Pradesh, Bihar, Vindhya Pradesh, Saurashtra and PEPSU, power is reserved to the village assembly for modifying and approving the annual budget, including the taxation proposals, it contains. Where a Panchayat Assembly is an elected body, the budget is prepared and passed by the panchayat itself. In Madhya Bharat, however, the larger body of voters in the village has been given the right of discussing the budget; the budget may be modified by the panchayat in the light of such discussion; it has then to be submitted to the *kendra* panchayat (local board) along with a copy of the proceedings of the general meeting of the voters. Similarly, in Hyderabad, a meeting of the larger body of voters has to be convened once a year. In this meeting, the statement of the panchayat's accounts, together with a report on the administration of the preceding year and the programme of work prepared for the following year, are laid before the voters and explained to them. Within a week after such meeting, any suggestions, in writing, about the future programme may be made to the panchayat secretary who forwards the suggestions to the Deputy Collector along with the panchayat budget. Whether the budget is passed by the panchayat or (where it is so empowered) by the village assembly, it requires, in all cases, the approval of some higher authority such as a district board, district panchayat officer or district magistrate.

18. Most panchayats have secretaries in addition to the elected office-bearers. In some States the individual panchayats are empowered to appoint their own secretary (as in Madhya Pradesh, Bombay, Uttar Pradesh, Vindhya Pradesh and PEPSU) subject to certain rules laid down by the Government. In a few States, the

secretary is appointed by Government (as in Bihar and Mysore). For the bigger panchayats in Madras and Andhra, the State Governments appoint stipendiary officers of their own to discharge the executive functions of the panchayats. In the large majority of the panchayats in these two States, the president exercises the executive functions with the clerical help of whole-time or part-time servants. In Hyderabad, the panchayats do not usually have a paid secretary; one of the Panchas is appointed by the Deputy Collector, in consultation with the panchayat, to act as the honorary secretary of the panchayat. In quite a large number of cases and in most of the States, the same person acts as secretary to more than one panchayat. The salary of the secretary is paid out of the panchayat funds in most of the States, while it is borne by the Government in full or in part in some States (e.g., Uttar Pradesh and Bombay).

19. For the guidance, direction, supervision and control of panchayats, almost all States have set up either a new department known as the Directorate of Panchayat Raj (Uttar Pradesh, Bihar, Punjab, Madhya Pradesh and PEPSU) or have expanded their existing Departments such as the Rural Development Department (Assam), Cooperative Department (Orissa), Inspectorate of Local Boards (Madras) and Directorate of Local Authorities (Bombay) to include a comprehensive Panchayat branch. At the district level there are District Panchayat Officers, Circle Inspectors, etc., who perform these functions.

20. In some States, there exists or is envisaged a pyramidal structure of panchayat organisation in the sense that one or more tiers of elected bodies intervene between the basic unit in the village and the State Government at the top. Thus, in Assam, there are single-village primary panchayats, one rural panchayat for a few primary panchayats and union panchayats at the taluka level; in Orissa there is a proposal to create anchal sasans which will, *inter alia*, have certain powers over the Panchayats; in Saurashtra there are district panchayat mandals at the district level and mandhyastha panchayat mandal at the State level; and in Madhya Bharat there are kendra panchayats and mandal panchayats. In Punjab the institution of thana panchayat unions is contemplated for the purpose of discharging certain advisory functions.

21. The pattern of the revenues available to panchayats is more akin to that of municipal bodies than of local boards. Statistical Appendix 2 furnishes certain details of the income which panchayats derive from various sources. It will be seen that grants from Government play as yet a much less significant part in financing the panchayats than they do in respect of district boards. In most States, the revenue from taxation constitutes the largest single source of income for the panchayats.

22. Village panchayats of all the States have been empowered to levy taxes. Appendix A gives a brief description of the tax powers of the panchayats in various States. The tax bases to which these powers have reference are comprehensive; they cover persons, property and business.

Among the taxes which may be levied are: the general property tax (in all the States), the service taxes (in most of the States); taxes on land revenue or rent of land (in Assam, Madhya Pradesh, Uttar Pradesh, Madhya Bharat and Vindhya Pradesh); taxes on trades, professions and callings (in most of the States); taxes on animals and vehicles (in most of the States); octroi (in Bombay and Saurashtra); tax on sale of goods other than those coming under the purview of the general sales tax (in Hyderabad); pilgrim tax (in Bihar, Bombay and Hyderabad); theatre tax (in Bombay, Hyderabad and Saurashtra); tax on fairs and festivals (in Bombay, Saurashtra and Mysore); tax on marriages (in Assam, Bombay and PEPSU); tax on births (in PEPSU); and labour tax (in Assam, Bihar, Madhya Pradesh, Orissa, Madhya Bharat and PEPSU). The lists of panchayat taxes of most of the States compare very well with the lists of taxes in highly developed urban local bodies. Moreover, a general provision is sometimes included in the relevant enactments to the effect that panchayats may, with the sanction of Government, levy any of the taxes which the State Government themselves are empowered to levy. Theoretically, it puts panchayats on a par with the most developed urban local bodies as far as powers of taxation are concerned.

23. In all States, however, the exercise of these tax powers is subject to specific conditions. The imposition of the taxes, the variation of the rates and the cancellation of existing taxation require the approval of the State Governments. The panchayats cannot tax except in accordance with the rules and orders of Government which in most cases are very elaborate. In almost all the States, the maximum rates in respect of the various taxes have also been prescribed either in the Panchayat Act or in the rules framed under it. In a few instances (e.g., Bombay and Madras), minimum rates are fixed for a number of taxes. In some States, the Acts have also provided that Government may, through a prescribed authority, require any panchayat to levy any tax or increase the rates of the existing taxes if in the opinion of the authority the income of the panchayat is not adequate to meet its obligations. In Madhya Pradesh, this power is vested in the District Council (Janapada Sabha), in Orissa in the Registrar of Co-operative Societies, and in Mysore in the Deputy Commissioner.

24. Since the extension of panchayats is a relatively recent feature in most States, the fact remains that, in very many instances, the panchayats have not yet commenced or have only just begun to exercise their tax powers. From the data that are available, it appears that in PEPSU, Himachal Pradesh and Delhi the panchayats have not yet levied any taxes. In Madras, the newly constituted panchayats are reported to be very reluctant to levy taxes. In Punjab, during 1950-51 the number of panchayats which had begun to levy their taxes was 2,809 as against a total of 6,483 panchayats in the State, even though the general property tax (hearth tax) is a compulsory tax under the Village Panchayats Act of the State. In those States where a fairly large number of panchayats have already been in existence for some years, e.g., Bombay, Madras and Mysore (or union boards in the case of West Bengal) taxation contributes a substantial proportion to the total income of the panchayats. In most

other States, income from panchayat taxation has yet to become a significant part of the revenue. The pattern of revenues of village panchayats as given in Statistical Appendix 2 shows that while in West Bengal, Bombay, Mysore and Madras, taxation during the latest year for which data are available accounted for 73.9 per cent., 63.1 per cent., 63.0 per cent. and 55.2 per cent., respectively, of the total income of the panchayats, in other States, with the exception of Uttar Pradesh, taxation has not contributed more than 37 per cent. of the total. It is as low as 4.8 per cent. in Saurashtra and 19.5 per cent. in Punjab. (In Uttar Pradesh, the percentage appears high because Government grants to panchayats are not included in the Statistical Appendix).

25. Of the long lists of obligatory and optional taxes, panchayats in a majority of States have so far utilised only one or two or, at the best, three taxes. The more widely adopted taxes are (1) general property tax (or the local rate); (2) taxes on land revenue or rent of land; (3) profession tax; and (4) tax on animals and vehicles. In a small number of panchayats other taxes are also being utilised, e.g., the service taxes in Bombay and Madras; octroi by a few panchayats (in Bombay and Saurashtra); theatre tax in a few panchayats of Bombay and tolls in a few panchayats in Vindhya Pradesh. The general property tax is levied by most of the panchayats of all the States, except in Uttar Pradesh, and Vindhya Pradesh where the major source of income is the tax on land revenue. The relative importance of the main taxes and their individual contribution to the tax revenue of the panchayats of some of the States is given in Statistical Appendix 3. On an average, the general property tax contributed 100 per cent. of the total tax revenue of the panchayats of Punjab and the union boards of West Bengal during the year for which data were available. In Mysore, Hyderabad and Bihar its average contribution has been 82.6 per cent., 77.5 per cent., and 72.2 per cent. respectively of the average total tax revenue of a panchayat. In Bombay and Madras, it contributed over 50 per cent. of the total tax revenue. Taken together with the service taxes, the proportion of the general property tax in these two States would be even higher.

Next in importance is the tax on trades and professions. This tax is levied in a large number of panchayats and has contributed from 0.3 per cent. to 29.6 per cent. of the total tax revenue of the panchayats in those States where it is levied. Octroi is of primary importance in Saurashtra where it accounts for over 92 per cent. of the total tax revenue of the Panchayats while the tolls account for 5.1 per cent. and 12.8 per cent. of the total tax revenue of the panchayats in Assam and Vindhya Pradesh respectively.

26. We shall later have occasion to consider in some detail the functions entrusted to village panchayats. Just as the tax powers which may be devolved on panchayats are, on paper, very comprehensive, so are the functions enumerated in the Acts and rules of State Governments with reference to the eventual scope of the duties which panchayats may discharge. These range over a variety of functions which are judicial, police, civic, economic and so on. Thus, the smaller disputes may be disposed of by panchayats in some States; roads, primary schools, village dispensaries, etc., are to be managed by them in some instances. Water supply both for drinking and for irrigation may be remitted to their

Functions of Panchayats

care in some cases and finally even 'productive' and economic activities such as farming, marketing, storage of agricultural crops, etc., may be entrusted to their care under the regulations of certain States. In actual fact, however, the functions hitherto discharged by panchayats are much more limited than these impressive lists would indicate. Indeed, in most States the range of activities of village panchayats does not in practice extend beyond the construction of panchayat *ghars* or *chawdis*: construction, repair and maintenance of wells for drinking water; construction and maintenance of a few village roads and drains; provision of village lighting; organising voluntary manual labour; occasionally the construction of buildings for primary schools or village dispensaries; and a few minor duties of a casual nature such as the 'registration of births and deaths'. In a large number of cases, a village panchayat performs barely two or three functions.

(2) District Local Boards

27. The territorial jurisdiction of a district board or local board is generally a revenue district. In Assam, however, it is confined to a revenue sub-division; while, in Madhya Pradesh, local boards have been replaced by 'Janapada Sabhas' (96 in number) which usually cover a Taluka each. Apart from these, there are no sub-district boards, taluka boards or tehsil boards now in any of the States. The district or local boards are 196 in all; there are no such bodies in Part C States and they exist only in Hyderabad, Mysore and Rajasthan so far as Part B States are concerned. As we shall see, the position of district boards in their present form is fast being rendered untenable by various factors; not the least among them is the process by which their functions are being taken over by State Governments from above and by village panchayats from below.

28. Unlike the municipal bodies, district boards derive a substantial portion of their revenue from Government grants-in-aid (*vide* Statistical Appendix 4). The contribution of grants to total revenue varies from 17.5 per cent. in Mysore to 65.3 per cent. in Orissa. In Orissa and Uttar Pradesh, Government grants account for more than double the revenue that is raised by the district boards by way of taxes; and in Punjab and Bihar for more than 1½ times. However, despite the financial assistance received from the State Governments, district boards remain much poorer than the municipalities. As may be seen from Statistical Appendix 5, the average *per capita* income of municipalities (other than corporations) is about eight times the corresponding figure for district boards, while the *per capita* incidence of municipal taxation is about twelve times that of district boards.

29. The tax powers of district boards are extremely limited. The income from different taxes and its proportion to total tax revenue in various States is given in Statistical Appendix 6. The most important source of tax revenue is the land cess. In terms of the proportion it bears to the aggregate tax revenue, the income from land cess varies from a little over 50 per cent. in certain States (e.g., Assam) to more than 90 per cent.

in certain others (e.g., Bombay, Bihar, West Bengal, Orissa and Hyderabad). In Madras, the percentage is over 60 and in Punjab and Uttar Pradesh over 80.

The item next in importance to land cess differs for different States. In Madras and Andhra, it is the duty on transfer of property (twenty per cent. of total tax revenue); in Punjab, the profession tax (fifteen per cent.); and in Uttar Pradesh the tax on property and circumstances (thirteen per cent.). Tolls are of some importance in West Bengal and Assam where, in terms of tax revenue, they contribute nine per cent. and 6.8 per cent., respectively. In Madras, where the local boards are compensated by the State Government for abolition of tolls, the relevant amount accounts for 9.4 per cent. of the tax revenue.

Both land cess and profession tax have, in practice, proved to be comparatively inelastic sources of income for local boards. The former is based on land revenue which itself has remained relatively static for various reasons; while the rates of profession tax (which are in any case limited to the maximum of Rs. 250 per assessee imposed by the Constitution) have obviously to be rather low in view of the level of income of the rural classes with which local boards are largely concerned. A significant development is the decision of some States, e.g., Bombay, to assign a share of the land revenue to the district boards. Except in Bombay, however, the assignment has hitherto remained unsubstantial.

Thus, grants-in-aid still occupy much the larger place in the finances of district local boards.

30. The Governments of Assam, Bombay and West Bengal have relieved the district local boards of their responsibility for primary education by transferring it to *ad hoc* boards constituted for the purpose, known as district school boards or school boards. In Assam, the State Government have indicated that secondary education also would be taken away from the local boards. In the sphere of medical and public health services, the tendency has been equally pronounced and provincialisation of the medical services has been going on in almost all the States. In West Bengal, the Government have provincialised the health services under local bodies with effect from 1st February 1947. The entire health organisation in this State is now under the Director of Health Services operating through a unified executive staff. In Madras, the Government have been pursuing a policy of taking over five or six local medical institutions every year. In the Punjab, many hospitals have been transferred from the local bodies to the Government. Similar policies are being followed with regard to highways and roads in all the States. In Madras, local boards are no longer in charge of the main roads; the maintenance of these has been taken over by the Highways Department of the State Government from 1st April 1946. The increasing role of the Government departments in the services of the rural areas, as one of the implications of planning, has further affected the role and status of the district boards as useful units of rural local self-government.

31. The establishment of village panchayats on a large scale has affected, in most States, the position of district boards. Financially, the establishment of village panchayats has resulted in the assignment of a share of the receipts of the district local boards from the cess and the land revenue (where a share has been assigned to them) to the village panchayats, thereby further curtailing the revenue resources of the district boards. Likewise, the panchayats also assume responsibility for performing certain functions which the district boards previously performed. As a matter of fact, the establishment of the village panchayats has brought to the fore the question of the future of the district boards.

(3) Municipalities

32. In respect of structure and organisation, there is a great measure of uniformity between the municipalities of different States; there are, at the same time, significant differences in the degree of control exercised by the State Governments, the powers of taxation delegated and the scope and variety of functions and the efficiency of tax collection and general municipal administration.

The standard pattern is a council (or committee or board) elected by the municipal voters, and a president (or chairman) elected by the council. In Madhya Pradesh and Uttar Pradesh, however, the president is elected direct by the municipal electorate. There is usually an executive officer; and in some States the appointment of such an officer is obligatory on the municipality. In Madras, Andhra, Hyderabad and Travancore-Cochin, the executive officer is appointed by the Government, while, in most other States, the municipalities themselves can make the appointment, subject to rules framed under the statute or with the specific sanction of the Government. Where there is provision for an executive officer, his own powers, and the corresponding limitations, if any, on the executive authority of the President, are defined in the Acts or rules. Where the executive officer is appointed direct by Government, his powers are usually larger than in otherwise the case.

A conspicuous feature of municipal administration in Madras, Andhra and Hyderabad is the existence of centralised State cadres for the more important municipal officers. The municipal commissioner, municipal engineer and health officer are not only appointed by Government but belong to cadres constituted by Government. In Hyderabad, most of the staff drawing over Rs. 100 per month is also appointed by the State Government and paid from a fund created for the purpose. A detailed picture of the constitution of municipalities in different States and the supervisory powers exercised by the Governments is given in Appendix B.

33. For particulars concerning the income of the municipalities from different sources, viz., taxation, grants-in-aid and non-tax revenue, reference is invited to Statistical Appendix 7, in which these are given for the municipalities in different States. Taxation accounts for the larger part of municipal revenue in practically all the States. Only in Vindhya Pradesh does it contribute less than 50 per cent. of the total revenue. The average for all municipalities is 63.2 per cent.

34. The enactments governing the municipalities specify the taxes which can be levied by them. In addition, some of these contain a provision which is no more than the statement of the position already implicit in the Constitution, *viz.*, that any other tax which the State Government themselves may levy may, with the sanction of Government, be levied by the municipalities. In only a few States and for a few taxes are minima specified in the enactments; in other words, it is not common for State Governments to ensure by statute that all the municipalities in their charge do in fact have to levy particular taxes at certain minimum levels. The maxima too are only occasionally fixed by statute, and the more general practice is to leave it to the municipalities to fix the rates from time to time in consultation with or under the directions of the State Governments. In certain States (notably Madras and Bombay), however, there is a marked endeavour on the part of the State Governments to induce or compel municipalities to step up the rates of levy of various taxes. The detailed position in respect of the important taxes levied by the municipalities in various States, and their powers in regard to the levy of taxes, alteration of rates, etc., is given in Appendix C.

35. The main taxes levied by the municipalities are:—

Taxes levied by municipalities

- (a) taxes on property; rates on buildings and lands including open land—general rate and service taxes—the duty on transfer of properties;
- (b) taxes on goods; octroi and terminal taxes;
- (c) personal taxes; taxes on professions, trades, callings and employments; taxes on circumstances and property; terminal tax on passengers including the pilgrim tax;
- (d) taxes on vehicles and animals and
- (e) theatre or show tax.

In addition, in Madras, Andhra and Mysore, the share of receipts from entertainment tax forms a substantial source of income of the municipalities. Statistical Appendix 8 gives the total income of the municipalities from taxation and the income from various taxes. It reveals significant differences in the degree of exploitation of the various taxes. In particular, it shows the difference that exists in the importance of the octroi and terminal taxes *vis-a-vis* the property taxes in various States. Thus in Bombay, Madhya Pradesh, Punjab, Uttar Pradesh, Madhya Bharat, PEPSU and Saurashtra, the income from octroi and terminal taxes is greater than that from property taxes, while in Assam, Bihar, Madras (undivided), West Bengal and Travancore-Cochin, octroi and terminal taxes are not levied at all, and in Orissa, the revenue from this source is insignificant. On the other hand, property taxes occupy the main place in the municipal revenues of Assam, Bihar, Madras, West Bengal, Hyderabad and Travancore-Cochin. In Punjab and Uttar Pradesh, their contribution is significant, but more limited. Rajasthan and PEPSU are States where property tax is levied only by one or two municipalities. In Madhya Pradesh, Punjab, Uttar Pradesh and Madhya Bharat, even where property taxes are levied, the rates are very low. Thus, in Punjab, fourteen municipalities levy the tax

at less than six per cent. of the annual value; and no municipality levies it at a rate exceeding $12\frac{1}{2}$ per cent.

36. This brings out one fact very clearly. Even in Part A States, municipalities are still reluctant to incur odium by stepping up or extending the direct taxes. But, there is not the same reluctance to levy indirect taxes like octroi.

Reluctance of municipalities to levy direct taxes

In Part B States, especially those which have been formed by the merger of a number of former princely States, the position is more unsatisfactory in respect of the levy of direct taxes and even of indirect taxes. Thus in PEPSU, the entire municipal revenue is realised only from octroi. In Rajasthan, even octroi is levied only in 85 municipalities out of 139; the State Government* confess that attempts to levy taxes by local bodies met with considerable resentment in most cases.

In Saurashtra, a number of municipalities were in the nature of State departments and the question of independent sources of revenue did not arise in the past. The elected municipalities under the new dispensation found it difficult to impose taxes. The State Government had, therefore, to take over the onus of initially levying some of the more important taxes. This is illustrated by the levy of octroi duty under the 'Saurashtra Terminal Tax and Octroi Duty Ordinance' promulgated in 1949.

37. The total income and total expenditure of the municipalities in various States (on data for the latest three years for which they are available) will be found indicated in Statistical Appendix 9. It will be seen from the Appendix that the growth of municipal revenue is inadequate in relation to the growth of expenditure on important civic services. It will also be noticed that in almost all the States the municipal budgets are precariously balanced; in some States, the expenditure is greater than the current revenue of the municipalities.

The average income and average expenditure of the municipalities in various States for the latest year for which figures are available is given in Statistical Appendix 10. This Appendix shows not merely certain glaring differences in the average income and expenditure of the municipalities in various States, but the low average income and expenditure of the municipalities, in all the States, in relation to the average population they have to serve. The income, even in Part A States, is less than Rs. 2 lakhs in three States, and less than three lakhs in three other States. It is only in two States—Madras and Uttar Pradesh—that the income is comparatively high. In no Part B State does the income exceed Rs. 2 lakhs. Figures for the *per capita* income from all sources and taxation and the *per capita* expenditure in municipalities in various States are given in Statistical Appendix 11. This brings out clearly both the large gap between municipal revenue and municipal expenditure in various States and the low rates of levy at which the tax revenue is

* "There is at present an apathy to the imposition of any form of new taxation even though civic amenities of an elementary kind may not be available. Octroi is the most important source of income, but there is a general resentment in the public against this form of taxation, especially because of the prevalence of the customs duty". (Memorandum of the State Government).

secured. It is obvious that with such low levels of income and expenditure, even the rendering of obligatory services is inadequately performed by most municipalities. This observation will be seen to be borne out by Statistical Appendix 12 in which the pattern of municipal expenditure in various States is analysed. The figures of income and expenditure of certain selected municipalities are given in Statistical Appendix 13. Water supply and drainage, sanitation, public health, medical relief and roads are services which almost in every town require urgent expansion; at the same time, in the context of increased establishment charges, wages and cost of materials, the municipalities are hardly able to maintain these services even at the pre-war levels.

(4) Municipal Corporations

38. The corporation, as a distinct type of municipal organisation, was till a few years ago confined to the three presidency towns of Bombay, Madras and Calcutta. There are now twelve municipal corporations, the recent additions being: Patna (Bihar), Ahmedabad and Poona (Bombay), Nagpur and Jabalpur (Madhya Pradesh), Hyderabad and Secunderabad (Hyderabad), Bangalore (Mysore), and Trivandrum (Travancore-Cochin). In the number of people they serve, as in the resources they command, these bodies differ widely. Thus, the population varies from 28.36 lakhs of Bombay to 1.62 lakhs of Secunderabad and the income from Rs. 860.5 lakhs of Bombay to Rs. 9.9 lakhs of Trivandrum as shown below:—

TABLE 1.—Population and income of different Municipal Corporations

Name of the Municipal Corporation		Population within the Corporation's Jurisdiction (in lakhs)	Income 1951-52 (in lakhs of Rupees)
1.	Patna	2.50	N. A.
2.	Bombay	28.36	860.5
3.	Ahmedabad	8.14	110.6
4.	Poona	4.81	115.4
5.	Nagpur	4.89	108.3
6.	Jabalpur	2.04	31.9
7.	Madras	14.29	230.0
8.	Calcutta	25.21	542.5
9.	Hyderabad	8.03	39.1
10.	Secunderabad	1.62	14.9
11.	Bangalore	7.79	68.4
12.	Trivandrum	1.87	9.9

39. Municipal corporations as a class have wider functions and larger powers than is usually the case with municipalities. Not only do they have ampler powers of taxation, but, in the matter of formulation of budgets and sanction of municipal works, they enjoy much greater freedom—sometimes complete

**Powers and functions
of municipal corpora-
tions**

freedom—from the control of the State Government. In particular, however, what chiefly distinguishes the corporation from the municipality is the almost complete separation of the deliberative from the executive functions and the vesting of all executive authority in a Municipal Commissioner who is relatively independent of the elected body.

40. The pattern of municipal corporations in regard to structure and organisation is more or less the same in all the States. A general House consisting almost wholly of elected councillors, one or more statutory (standing) committees elected by the general House, and an executive officer appointed by the State Government are the authorities which together constitute the corporation. Each has definite powers and duties. The general House is the policy-making body. In it vest all residuary powers not specifically allocated. It elects a Mayor, whose powers and functions are mainly confined to presiding over the meetings of the House. The standing committees have definite functions, duties and powers which they derive direct from the statute, i.e., not by delegation from the general House. These arrangements, together with the fact that executive power is vested in the Commissioner, tend to assist in the expeditious and efficient disposal of business.

41. All the enactments governing the municipal corporations provide that the entire executive authority shall vest in an executive officer (designated the Municipal Commissioner in most of the Acts). In his case too, therefore, both authority and responsibility flow direct from the statute and are not derived from the elected council. The independence of the executive officer is also secured by a feature which is common to all States, viz., that his appointment is made by the State Government and that the person selected is usually a senior officer belonging to the highest administrative cadre of Government. This has always been the position in Bombay and Madras. In Calcutta, however, at one time (under the Act of 1923), the Chief Executive Officer was appointed by the elected council. Subsequent experience led to the reconstitution of the Calcutta Municipal Corporation broadly on the model of Bombay and Madras. Under the Calcutta Municipal Act, 1951, the Municipal Commissioner of the Calcutta Corporation is appointed by the State Government on the advice of the Public Service Commission.

42. The main taxes that various municipal corporations can levy are given in Appendix D. In the Acts which govern the earliest corporations (Bombay, Madras and Calcutta), the powers of the corporation are limited to a specific number of taxes which are individually mentioned. Thus, the Bombay Municipal Corporation can levy the property taxes including service taxes, the town duties, the tax on vehicles and animals, a theatre tax, an education cess and a minor tax called dog tax, which is actually in the nature of a licence fee for keeping dogs. The Madras Corporation can levy the property taxes, the tax on trades, professions, callings and employments, the tax on companies, a tax on timber brought into the city for sale, use or consumption, duty on transfer of property, tax

on animals and carriages and the tax on advertisements. The Calcutta Corporation can levy the property tax (consolidated rate), a tax on professions, trades and callings and the tax on animals and carriages. Both minimum and maximum rates for the property tax, and maximum rates alone for the other taxes are laid down in the Bombay Municipal Corporation Act and the Madras City Municipal Act; while for the Calcutta Corporation, only the maximum rates of property tax are specified. Subject to such minima or maxima as are laid down in the different enactments, these corporations are free to impose or modify the taxes as they choose, i.e., without having to obtain the sanction of the State Governments. In the recent enactments, however, the tendency has been to enlarge the scope of the statutory provision so as to make it possible for the Government to authorise the levy of fresh taxes by the Corporations as and when occasion arises.

43. Statistical Appendix 14 gives the income of the different municipal corporations, both in the aggregate and with reference to individual sources of revenue, for the latest year for which data are available. The figures reveal that, between individual municipal corporations as between individual municipalities, there are significant variations in the importance of octroi and terminal taxes *vis-a-vis* property taxes; at the same time, they show that property taxes are the largest source of revenue in eight out of the eleven municipal corporations for which the figures are available and that octroi is the largest single item in only three corporations. Thus, property taxes are the largest source of revenue for the Municipal Corporations of Bombay, Ahmedabad, Calcutta, Madras, Bangalore, Hyderabad, Secunderabad, and Trivandrum; while octroi is the main item for those of Poona, Nagpur and Jabalpur. In Jabalpur, where property tax has not been levied at all till recently, steps are being taken to introduce the tax.

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44. Statistical Appendix 15 gives an indication of the income and expenditure of different municipal corporations for the three latest years for which data are available. The level of expenditure on municipal services is naturally higher in corporations than in municipalities; this to some extent follows from the larger tax resources at the command of municipal corporations. At the same time, the very rapid increase of the population that has occurred in these centres during the War and thereafter has brought in its wake special requirements of town planning, slum clearance, housing, water supply and drainage which in many instances it has not been possible for the municipal corporations to meet within the finances at their disposal.

CHAPTER II

APPROACH TO LOCAL FINANCE AND TAXATION : GENERAL RECOMMENDATIONS

In so far as they relate to this part of our enquiry, our recommendations may be divided into those which are concerned with local taxation generally and those which pertain to individual local taxes. The latter are contained in Chapters III and IV. In this chapter, we propose to indicate very briefly our approach to local taxation as a whole and, to the extent that it is unavoidable, to local finance of which taxation is only one component, and to the functions, structure and organisation of local bodies with which both finance and taxation are intimately connected.

Introductory

2. Our general observations and recommendations, or where the matter falls beyond our strict purview, our broad assumptions as to future policy, may be said to be related to what in essence is the two-fold aspect of the problem of local self-government: the aspect of growth and development on the one hand and of consolidation and reorganisation on the other. The latter is mainly a matter of finance and structure, that is to say, of better finance and a more efficient structure; and it is a problem equally present for the urban and rural sectors of local self-government. The former is in many ways more fundamental; it is especially connected with the rural areas and the panchayats, for implicit in it is the whole question of building up local self-government from its base which is the village; it raises important issues, to some of which we ourselves can make no more than the briefest reference. These are : the nature of the village leadership that is available and the socio-economic changes which may be necessary for that leadership to be of a type which will operate for the general benefit of the village; if, by and large, that leadership today is inadequate in quality or is unrepresentative of the real interests of the village, the danger meanwhile that its association with the panchayat will merely serve to provide another context for the domination of the weak by the politically and economically powerful; whether, therefore, the priormost need of policy today, for the development of local self-government as for many other lines of progress that must start from the village, is not the bringing about of conditions that are less remote than at present from the constitutional goal of equality of wealth and status; whether considerations of this kind, if they are valid, should at least not dictate that the functions allotted to the panchayats are such that they do not enlarge the sphere of economic domination by a few over the many; whether, even in those instances in which the leadership is all that may be desired, the emphasis should from the beginning be so much on the conferment and exercise of tax powers—rather than, for example,

on voluntary contributions and grants-in-aid—as to invest the panchayat with an initial handicap; and, finally, whether mere multiplication of panchayats, without the preliminary creation of the conditions necessary for their success, including the preliminary provision of adequate finance and adequate trained staff, is the proper way of implementing the Constitutional directive concerning the eventual establishment of a country-wide system of village panchayats.

3. An equally important question, which we can only refer to here, arises in the context of Planning, National **Planning and Local** Extension and developmental activity generally. **self-government** In the anxiety of Governments to proceed with the execution of rural projects of development, small as well as big, with efficiency and speed, to what extent may the claims of local self-government in rural and semi-urban areas be disregarded in order that the pace of execution of development schemes can be accelerated? This is a conflict which may conceivably arise, but every effort should be made to prevent it. The association of local interest and opinion is an essential factor in the promotion of development schemes in rural areas; and the problem which arises is how to associate the local organ of self-government with it, while at the same time not unduly sacrificing the pace at which progress should take place. We note that many experiments, notably in the context of National Extension, are in effect designed to seek the right answer to this question; and the right answer, of course, is bound to differ for different parts of the country. Here again, the mere multiplication of village panchayats in areas not previously prepared for their proper and successful working would not be a solution; nor, it must be added, would it be a solution to ignore the rightful place which, without undue delay, local bodies must come to occupy in the total picture of governmental activity. Underlying our general recommendations is the assumption that a fundamental aim of policy, including development policy, will be the—increasing association of local bodies, both urban and rural, with the execution of the National Plan.

4. It is at the same time important that such association, while **Development of** not unduly retarded on the one hand, should, on **conditions necessary** the other, be effective from the point of view of **for local self-government** the Plan and sound from the point of view of the growth and consolidation of local self-government itself. That is why we would observe that, on the assumption that local self-government will be given its rightful place in future development, the task which has to be faced is two-fold : (1) in the whole of the rural sector, the problem of developing the conditions necessary for proper self-government and (2) in the urban sector as well as the rural, the question of providing adequate finance for the functions delegated from time to time. The total inadequacy of municipal finance for the work that remains to be undertaken in many cities and towns in respect of important items such as water supply, drainage and slum-clearance has been brought pointedly to our notice by many State Governments. As regards some of the aspects of local self-government and finance in the rural sector, we shall, in the next few paragraphs, attempt an analysis of how these stand in relation to the functions delegated

and policies pursued in different States. Meanwhile, as illustrating the point we have made concerning the larger context of the rural problem of local self-government, we would cite the following observations of the Government of Mysore which, we have reason to believe, are of application not only to that State but to rural conditions generally as they obtain in more than one part of the country:

“Contrary to expectations, it is a matter of genuine regret that the village panchayats have not shown signs of healthy development in spite of all the interest taken by Government. The reasons for this unfortunate trend require careful analysis. It is possibly due to lack of sufficient interest taken by the villagers and also to some organisational defects. In recent years there has been a remarkable tendency in the people all the State over of a steady migration of the more hardworking and intelligent persons and labourers from the rural area to the urban. The cost of living has increased. The necessities of civilised existence have increased and the scope which the village offers for a steady and gainful employment and a satisfactory living under the present conditions is inadequate. There has been a considerable development of trade and industry in the urban areas. The urban area not only offers gainful employment but attracts persons by the various amenities it offers. These factors have caused a steady and unceasing flow from the rural areas to the urban areas, and is the most phenomenal development in the last decade which may have very far reaching effects on the entire social and economic pattern of the country.....

The tendency was mostly to have a panchayat for each village. The spirit of co-operation among villagers and among villages and the will to join together for common good is found to be almost completely lacking. In these circumstances such development as has taken place has been possible only through spoon feeding and mostly by governmental effort. Naturally this is not a healthy development.....

Education has to be undertaken through propaganda and more and more viable group panchayats have to be formed gradually.....

The first essential, however, is that a radical change should take place over the entire country and it ought to be made possible for intelligent persons of the village to find their work and pleasure in the village itself. For this rural development work undertaken by the Government the cost on the Five-Year Plan by way of national extension service and community projects, etc., must progress at a quick pace and make the life in the rural parts more attractive than it is at present. The economic prospect of the village should also be made more stable by the development of cottage industries and a better type of

agriculture and the provision of proper marketing facilities for the rural products. The panchayat may then be expected to be an affluent viable unit of local body which can afford to manage its affairs better than it is doing at present with little guidance from governmental officers. Without such a healthy development, the prospect of the village panchayats is indeed dim."

5. We may now proceed to an examination of some of the problems which are peculiar to the two types of local body with which the rural sector is, in particular, concerned, viz., the village panchayat and the district local board. A concrete and important question of policy that presents itself to State Governments in promoting the establishment of village panchayats and investing them with functions, and with powers suited to these functions, is whether, save in the most exceptional instances, the range of activity of the panchayat can be usefully extended to all, or even many, of the following functions enumerated as appropriate by the Planning Commission:—

**Village Panchayats—
Functions**

- (1) framing programmes of production for the village;
- (2) framing budgets of requirements for supplies and finance needed for carrying out the programmes;
- (3) acting as the channel through which, increasingly, Government's assistance other than assistance which is given through agencies like co-operatives reaches the village;
- (4) securing minimum standards of cultivation to be observed in the village with a view to increasing production;
- (5) bringing waste lands under cultivation;
- (6) arranging for the cultivation of land not cultivated or managed by the owners;
- (7) organising voluntary labour for community works;
- (8) making arrangement for co-operative management of land and other resources in the village according to the terms of the prevailing land management legislation; and
- (9) assisting in the implementation of land reform measures in the village.

In the same connection, the Plan also contemplates Village Development Councils to be formed in organic connection with the panchayat wherever one exists. The Congress Village Panchayat Committee, we note, is against the multiplication of different kinds of bodies at the village level and considers that the village panchayat itself should be the core of economic planning, and that development plans should be woven around it. The Panchayat Committee of Local Self-Government Ministers would seem to be divided in its views regarding the appropriateness of so wide a range of economic and other functions being entrusted to the panchayat; and there are many authorities who doubt whether in the present conditions, the panchayat is the type of institution best suited for the development and promotion of the productive, distributive and other essentially socio-economic activities of the rural area, as distinguished from specific projects of development, such as roads and minor irrigation

tanks. In our view, a cautious policy in this matter would be preferable to undue optimism about the variety of functions which village panchayats can discharge.

The Panchayat Acts of most States include long lists of obligatory and optional functions. Thus, section 18 of the Saurashtra Gram Panchayat Ordinance No. 57 of 1949 enumerates over 180 duties for the panchayats. The corresponding enactments of Mysore and Himachal Pradesh enumerate at least twenty obligatory and fifteen optional duties of the panchayats. The Uttar Pradesh Act mentions over twenty obligatory duties and 25 optional duties. In all the States the functions of panchayats cover a wide sphere ranging from the normal municipal functions (such as the duty to make provision for water supply; maintenance of tanks, wells, bunds, etc., sanitation and conservancy; street lighting; construction and maintenance of village roads and communications; maternity and child welfare; registration of births and deaths; establishment and maintenance of primary schools; fire service; village watch and ward) to 'State' functions (such as the relief of the poor and the destitutes; promotion of agriculture, industry and commerce; and, finally, an omnibus provision which refers to the 'promotion of the material and moral welfare of the people'). We consider that such specific functions in the sphere of economic development and production, as are more appropriately discharged by, e.g., co-operative societies, should, as a rule, be excluded from the functions listed as devolving on village panchayats. We also consider it very necessary that instead of the multifarious functions which now figure in the enactments, a few well chosen and clearly defined duties should be assigned to the panchayats and that these should be co-ordinated with similar functions assigned to district local boards or other rural boards. In respect of items such as village schools, village communications, village sanitation and water supply, minor irrigation works, etc., we believe there is very considerable scope for associating panchayats more effectively with the local plans of development, and that the actual widening of activity in these specific directions has much to commend it in preference to an impressive expansion of functions which often merely remain on paper.

6. There are many reasons why the position of District Local
District Local Boards in the structure of local self-government
Boards is increasingly becoming unstable and, in the opinion of some, even untenable. The view that one board for as large an area as the normal district might prove unsuitable a unit of local self-government is not of recent origin. In a resolution of 1882, the Government of India observed that it was very important that the area of jurisdiction allotted to each board should in no case be too large. The Decentralisation Commission of 1909 preferred the universal establishment of 'sub-district boards' for small areas with independent powers and resources to act as the principal agencies in the rural areas, though they did not propose an outright abolition of the district local boards. Later, several State Governments emphasised before the Simon Commission the desirability of having smaller units than the existing district boards. Such smaller units, in the shape of taluka boards, had indeed been established in many provinces, but that was in addition to the district boards, not in replacement of them. What happened later, largely as the result of

grave lack of finance during the thirties, was the general abolition of the taluka boards themselves. The needs of planning have served to focus attention again on the size and efficiency of the district local board. Some of its more important functions have, in many States, tended to be transferred from it, e.g., primary education to school boards more or less nominated by the State Government, and roads and some of the major items of public health direct to Government itself. But perhaps the most important of the relevant factors is the one connected with the extension of village panchayats. Functionally as well as financially, each panchayat in its area overlaps the jurisdiction of the district board to a substantial degree. The overlapping has sometimes extended to tax powers. In certain States, there are taxes and fees which both the panchayats and the district boards are permitted to levy. In Hyderabad, there are five such taxes, viz., (1) profession tax, (2) market toll, (3) general water tax, (4) theatre tax, and (5) pilgrim tax. In Uttar Pradesh and Delhi there is overlapping in respect of profession tax or fees on professions. In Bihar, a number of taxes and fees are common to the two types of bodies, but it is provided at the same time that panchayats cannot levy such taxes or fees as have already been levied by local boards. In Madras and Andhra, when a new panchayat is formed, part of the previous income of the district board from land cess in the village and the whole of its previous income from the duty on transfer of immovable property in the village go to the panchayat. Ways of co-ordination between these competing jurisdictions are of course being evolved. Thus, in Bihar and Uttar Pradesh, the panchayat bye-laws are framed by or require the approval of the district boards concerned; and sometimes the panchayats are under the control, nominal or effective, of the district boards as in Bihar and Bombay. But this in turn has raised the question whether district boards, as at present constituted, are appropriately placed for controlling the village panchayats; and clashes of interest have often arisen between the village as represented by the panchayat and the district as represented by the local board. The situation thus created for local boards by the extension of panchayats is, therefore, not so much an older problem intensified as a new problem superadded. The question is no longer merely one of the size of the district board but more fundamental, viz., the problem of evolving a proper co-ordination of the functions and finances of the village panchayats and the other rural bodies, be they the district boards or some other organisation which may replace them. It is clear that district local boards can no longer continue in their existing form. Whether they should be modified, e.g., converted into bodies elected by the panchayats themselves when the latter are sufficiently widespread, or whether they should be abolished and replaced by smaller bodies, and, in that case, what the size and constitution of the smaller bodies should be are matters to be decided by the State Governments in the light of the differing circumstances of different States. The experience hitherto gained by the States appears to warrant the conclusion that no single course of reorganisation can be made applicable to all. For example, the first State to experiment with the replacement of the bigger territorial body by a smaller one, viz., Madhya Pradesh (where 96 jana pada sabhas were substituted for the 23 district boards in the year 1948) has found that the smaller bodies have not by any means worked satisfactorily; this led to the State Government appointing

a committee to enquire into their affairs within two years of their establishment. A different type of experiment, where the village panchayat has a share in the election of members to the 'district board', and, through it, to another board at the State level, is being conducted in the context of the kendra panchayats and mandal panchayats of Madhya Bharat and the district mandals and madhyastha mandals of Saurashtra. But these two States, it may be mentioned, never had district boards of the older type. Not even at an experimental stage is the proposal of the Orissa Government to create, in the form of an 'Anchal Sasan' a smaller local board for each group of hundred panchayats or so, on the principle of indirect election by such bodies. Whatever shape, in different States, the successor of the district board may take, it is clear that prior consideration will have to be given to the question of co-ordinating its functions, finances and tax powers with those of the village panchayat itself, treating the latter as the more basic type of organisation whose growth and efficiency it will be a function of the intermediate body to safeguard. Moreover, this intermediate structure, even if it hereafter normally covers less than the area of a district, should not be too small for the efficient and economical operation of the local services with which it is entrusted. Finally, it has to be emphasised that one of the important factors responsible for the unsatisfactory working of the district local boards and the inutility and abolition of the taluk boards has been the unwillingness, or the inability of State Governments to provide adequate finance for these organisations. It will be necessary for the State Governments to ensure that the existing district boards, or the new administrative units which may replace them, are not only given adequate tax powers, but, where necessary, are adequately financed from the resources of the State.

7. That brings us to the point that, apart from growth and development, the crux of the problem of local bodies is finance. The sources of local finance may be thus classified:—

Financing of local bodies—Different methods and preferences

- (1) revenue from taxation by the local bodies—
 - (a) taxes levied and collected by the local bodies themselves or by other bodies as their agents;
 - (b) taxes levied by the local bodies and collected by the State Government;
- (2) assignment of shares of taxes levied and collected by the State Governments;
- (3) grants-in-aid from the State Government; and
- (4) revenues from non-tax sources under the control of the local bodies.

8. While local finance thus extends far beyond local taxation, it is clear that a sound system of local finance should as a rule rest on a sound foundation of local taxation. In other words, the receipts from the taxation levied by the local body, or for which the local body in some way takes the responsibility in the fixation of rates, collection, etc., should provide the basic revenue, and the additional finances needed should be supplied by other methods.

Taxation as foundation

9. The foregoing observation is subject to an important qualification in respect of village panchayats during the period of their initial growth. It has to be recognised that the policy which compels each village panchayat, immediately on its formation, to assume as its principal role that of a taxing authority is as a rule likely, in the context of the conditions which prevail in the rural areas to prevent the establishment and development of village panchayats on a scale and on the lines contemplated under the Constitutional directive. Since a proper atmosphere has to be created for the development of village panchayats, it is necessary not to force them to resort to the levying of taxes at the very beginning. We recommend, therefore, that for the first few years, a substantial part of the finance required should be placed at the disposal of each new village panchayat by the State Governments.

10. One of the most pressing demands made has been that the local bodies should have a definite and assured source of the tax revenue and that this should be secured by the inclusion in the Constitution of a separate list of taxes which could be levied exclusively by and for the local bodies. The Local Finance Enquiry Committee recommended that definite sources of tax revenue should be assigned, but suggested that this object should be secured by the acceptance of a 'convention'. Several local bodies and non-official representatives on their behalf have given expression to the feeling that, because of the absence of a provision in the Constitution whereby specific taxes, or the proceeds from specific taxes, are earmarked for local bodies, State Governments have been encroaching on the sphere of local finance and that this tendency might so develop that ultimately the very existence and basis of local self-government would be in jeopardy. The fear is understandable, though the tendency to encroach has not, in point of fact, been as widespread and as detrimental as has often been assumed.

11. Under the Scheduled Taxes Rules, framed under the Government of India Act, 1919, the following were the taxes which were to be utilised by or for local authorities:—

- (1) a toll;
- (2) a tax on land or land values;
- (3) a tax on buildings;
- (4) a tax on vehicles or boats;
- (5) a tax on animals;
- (6) a tax on menials and domestic servants;
- (7) an octroi;
- (8) a terminal tax on goods imported into or exported from a local area, save where such tax is first imposed in a local area in which an octroi was not levied on or before the 6th July 1917;
- (9) a tax on trades, professions and callings;
- (10) a tax on private markets;

- (11) a tax imposed in return for services rendered, such as:
- (a) a water rate;
 - (b) a lighting rate;
 - (c) a scavenging, sanitary or sewage rate;
 - (d) a drainage tax; and
 - (e) fees for the use of markets and other public conveniences.

Examining these taxes, it is found that only in one State and in respect of one tax alone has there definitely been an encroachment to the direct detriment of the local bodies, viz., profession tax in Assam. The State Government levy the tax and the local bodies have not been permitted to levy it. In Madhya Pradesh, too, the State Government do levy a profession tax but at a relatively low rate, at the same time they permit the local bodies also to impose a levy in the form of a tax on property and circumstances. The other tax which has been cited before as having been 'encroached upon' is the urban immovable property tax in Punjab and Bombay. But here again it may be pointed out that, by and large, the levy of the State tax has not been so operated as to stand in the way of the local bodies themselves raising or increasing the corresponding general property tax. It may be added that the Government of PEPSU propose to levy a State property tax in all towns with a population of over 25,000; in such towns, however, only two municipalities actually levy a property tax. While noting the fact that instances of this kind have not hitherto had the effect of substantially detracting from the scope of local taxation, that is to say of the ability of local bodies to levy or increase the corresponding taxes themselves, we must concede that the tendency itself is one which, if unchecked, is likely to retard the growth of a proper system of local taxation. The feeling that, because all the relevant taxes are in the State List, no 'local' tax is safe from a parallel levy by the State Government, for the benefit of State as distinguished from local revenues, is one which is undoubtedly strong today; it is a feeling which needs to be effectively allayed if the proper atmosphere is to be created for the efficient functioning of local self-government and if the proper leadership is to be attracted to the institutions of local self-government. We, therefore, agree that it is both desirable and necessary that certain taxes should in effect be reserved for being utilised solely by or for local bodies.

12. In the written memoranda and oral evidence of local bodies, and Institutions and Federations of Local Bodies, it has been represented that a 'convention' to this end would not be binding on the State Governments, and that, therefore, the reservation we have mentioned should be secured by the inclusion of a separate list of 'local' taxes in the Constitution itself. While we do not consider that a Constitutional amendment is called for, we very strongly recommend to the State Governments that the taxes which we indicate below should be allowed to be developed only by the local bodies or for them, and that, where the State Governments are at present exploiting any of these taxes for appropriation to State revenues, they should gradually withdraw from the field, and meanwhile allot the proceeds from the taxes to the local bodies concerned. The State Governments must inevitably play an all important role in the development

of local self-governing bodies. We are convinced that the recommendation we have made will secure, where it is now absent, an essential prerequisite of that development, and express the hope that the recommendation itself will suffice, in the sense of commending itself to State Governments, and that, consequently, no amendment of the Constitution will even eventually be needed.

13. The question then is what taxes should be reserved for utilisation by or for local bodies. The Local Finance Enquiry Committee has recommended one tax from the Union List and twelve taxes from the State List for such reservation. They are:—

Union List—

- (1) Item No. 89.
Terminal taxes on goods or passengers carried by railway, sea or air.

State List—

- (2) Item No. 49.
Taxes on lands and buildings.
- (3) Item No. 50.
Taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development.
- (4) Item No. 52.
Taxes on the entry of goods into a local area for consumption, use or sale therein.
- (5) Item No. 53.
Taxes on the consumption or sale of electricity.
- (6) Item No. 55.
Taxes on advertisements other than advertisements published in the newspapers.
- (7) Item No. 56.
Taxes on goods and passengers carried by road or on inland waterways.
- (8) Item No. 57.
Taxes on vehicles (other than those mechanically propelled).
- (9) Item No. 58.
Taxes on animals and boats.
- (10) Item No. 59.
Tolls.
- (11) Item No. 60.
Taxes on professions, trades, callings and employments.
- (12) Item No. 61.
Capitation taxes.
- (13) Item No. 62.
Taxes on entertainments including amusements.

Considering the taxes in the State List first as regards their suitability for devolution to local bodies it would be found that serial Nos. (2), (4), (8), (9) and (11)—i.e., taxes on lands and buildings; taxes on the entry of goods into a local area for consumption, use or sale therein; taxes on vehicles (other than those mechanically propelled); taxes on animals and boats; and taxes on professions, trades, callings and employments—are already within the powers of the local bodies in all the States (except profession tax in Assam and the ‘employments’ sphere of the profession tax in West Bengal). No. (3), i.e., taxes on mineral rights, has only a very limited scope and might benefit only a few local bodies in one or two States. As a measure of providing additional sources of revenue to the vast majority of local bodies, therefore, it is not of much consequence. On the other hand, taxation of mineral rights by local bodies raises problems both of policy co-ordination and confinement of incidence. The State is the more appropriate authority for the levy of this tax. No. (6), i.e., taxes on advertisements other than advertisements which appear in the newspapers, is a suitable tax and the State Governments also are agreeable to its being transferred to the local bodies. As a matter of fact, some of the municipal corporations and municipalities are already levying this, either in the form of a tax or a licence fee. It is, however, likely to be of revenue significance only for bigger municipalities and the municipal corporations. Nevertheless, we recommend that it should be reserved to the local bodies. No. (7), i.e., tax on goods and passengers carried by road or inland waterways, is a tax which is capable of being developed either as a terminal tax or as a surcharge. In Punjab, Madras and Bihar it is being developed as a surcharge on goods freights and passenger fares. whereas in Uttar Pradesh a terminal toll is levied in virtue of this power. The question whether it should be transferred to the local bodies or should be retained by the State Governments depends upon whether it is to be levied as a surcharge or as a terminal tax. As a surcharge, it would be more appropriate for the State Governments to levy the tax as otherwise the local bodies, in many cases, would have to be permitted to operate beyond their territorial jurisdiction. As a terminal tax, it is suitable for being levied by the municipalities and municipal corporations, but whether this should be utilised by any particular local body depends upon its power to levy terminal taxes on goods carried by railway, etc., because as a terminal tax, it is essentially complementary to the tax that is included in the Union List. The tax has, therefore, to be considered along with item No. 1, i.e., terminal tax on goods or passengers carried by railway, sea or air. The place of terminal taxes in the tax structure of local bodies is a subject which is elsewhere considered by us in detail. We therefore recommend that the entry regarding terminal taxes on goods or passengers carried by railway, sea or air should be retained in the Union List and that the Union Government should levy it for the benefit of municipal authorities in suitable cases. Where, in pursuance of this, the Union Government levies the terminal tax on goods or passengers carried by railway, etc., it would be necessary to levy a corresponding tax on goods or passengers carried by road. To that extent we recommend that this tax should be transferred or permitted to be utilised by the local bodies. As for item No. 10, i.e., tolls, we would observe that the tolls as a form of general taxation are outmoded. We elsewhere recommend that they should be allowed to be levied in only one specific context, viz., of new bridges on which

more than a particular level of expenditure has been incurred. It would therefore not be appropriate to reserve this tax exclusively for local bodies. The right to levy the tolls would, therefore, go with the incurring of the expenditure in respect of the bridges, etc. In these circumstances, as at present, tolls can be included as a conditionally permitted tax available to the local bodies, but the tax source cannot exclusively be reserved.

There remain three taxes, viz., No. (6) taxes on the consumption or sale of electricity; No. (12) capitation taxes; and No. (13) taxes on entertainments. The first of these is clearly unsuitable for levy by local bodies, and the second does not in our view need to be reserved for them. The taxes on entertainments are treated in certain States as a source of revenue on which local bodies have a claim. Thus, in a few States, the local bodies actually levy this tax. In Madras, Andhra and Mysore the net proceeds are distributed to the local bodies, but there has been a demand for the transfer of the power to levy the tax itself, as the percentage retained as cost of collection—ten per cent. in Madras and Andhra and 12½ per cent. in Mysore—is felt to be large. We consider that it is desirable that State Governments should continue to levy this tax, since, if transferred, the proceeds from it will benefit only municipal corporations and municipalities serving the more prosperous towns and cities and not the smaller and needier local bodies.

14. Regarding the alternative method often suggested viz., the assignment of the whole or a substantial share of the proceeds of the taxes considered above to the local bodies, we prefer, with certain exceptions, that additional revenues should be made available to local bodies by way of grants-in-aid rather than by way of assignment of a share in the receipts of the taxes levied by the Government, firstly, because revenue without responsibility would be demoralising and, secondly, because grants-in-aid can be determined on the basis of needs and be coupled with the maintenance of desirable standards.

15. The taxes to be reserved for exclusive utilisation should be such as may, in fact, be devolved on local bodies. In the result we recommend that the following taxes should be reserved for local bodies in the sense we have already explained:—

Assignment of proceeds of taxes to local bodies

Recommendation regarding the taxes to be reserved

- (1) Taxes on lands and buildings;
- (2) Taxes on the entry of goods into the area of a local authority for consumption, use or sale therein, popularly known as octroi;
- (3) Taxes on vehicles other than those mechanically propelled;
- (4) Taxes on animals and boats;
- (5) Taxes on professions, trades, callings and employments; and
- (6) Taxes on advertisements other than advertisements published in the newspapers.

In addition to these, we consider two other taxes, viz., the theatre or show tax, and the duty on transfer of property (levied along with the stamp duty collected by the Government) as suitable taxes for

utilisation by local bodies and recommend that the State Governments should permit local bodies to levy these two taxes. The duty on transfer of property would be collected through Government agency and should appreciably augment the revenues of local bodies.

We also recommend that two other taxes *viz.*, taxes on goods and passengers carried by road or inland waterways and tolls should be permitted to be levied by local bodies; the first, as a complementary levy by those local bodies where the terminal taxes on goods or passengers carried by railway, sea, or air are levied by the Union Government for the benefit of the local body and the second, where the local body incurs expenditure for the bridge in respect of which the toll is to be levied.

We need hardly add that these recommendations should not be construed as precluding the transfer of other taxes to any local body, wherever appropriate, if the State Governments consider such a course desirable.

16. While we have recommended the taxes to be assigned to the local bodies generally, we must emphasise that **Devolution of taxes** in view of the differences between the various categories of local bodies as well as the differences in the degree of development of the same category of local body in various States, the taxes to be devolved on any local body, and the degree of devolution, should, in any State, be determined by the State Governments in the light of the considerations mentioned below as well as other factors relevant to this particular State.

Two important criteria for determining the taxes to be transferred to any category of local body should be firstly, the suitability of the tax, and, secondly, the capacity of the local body to levy and administer the tax adequately and equitably. In order that a proper system, appropriate to the context of the State, may be evolved in each State, we commend the following considerations to the notice of the State Governments:—

(1) It is as essential to ensure the devolution of suitable taxes to local bodies as to avoid the transference of unsuitable taxes. An examination of the present situation reveals that while in a few cases, suitable taxes have not been devolved, e.g., the right to tax 'employments' (as part of the tax on professions, trades, callings and employments) in West Bengal, in a number of cases unsuitable taxes are devolved—e.g., the right to levy sales tax to village panchayats in Bombay. Both the classes of defects should in our view be rectified.

(2) The devolution should be sufficiently prompt, flexible and diversified. Where a general sanction would be sufficient, the obtaining of sanction in each individual case should not be insisted upon. In many States, the minimum or the maximum rates are not specified by State Governments and specific sanction is required for the levy of any tax or a change in the rate of any tax by the local bodies. It is desirable that, the minima in a few appropriate cases (e.g., property tax and land cess) and the maxima in almost all cases, should be prescribed by State Governments and the local bodies then left to modify the rates as and when suitable. This is particularly necessary in the case of municipalities and municipal

corporations. The provision in certain municipal Acts that, if a municipality is indebted to the Government, it cannot, without the sanction of the Government, reduce the rates of the taxes already levied is one which may be more generally adopted.

(3) There are different degrees of tax powers, *e.g.*, power to fix the rate, power to assess, power to collect, etc., and devolution should take sufficient notice of the different degrees to which different powers could be devolved on different categories of local bodies.

(4) Finally, it is necessary to prevent overlapping and unco-ordinated tax jurisdiction. This is essential specially in the case of village panchayats and rural boards.

17. A State tax which in effect is shared with the municipalities and the municipal corporations is the entertainment tax in Andhra, Madras, Mysore and Coorg; technically, the tax is transferred to local bodies, but a somewhat appreciable percentage (12½ per cent. in Mysore and ten per cent. in other States) is retained as 'collection charges' so that virtually the State Government shares the proceeds of the tax with the local bodies. Local authorities receive compensation in respect of the motor vehicles tax; the compensation is usually based on the average income derived by them at the time they were deprived of the relevant tax powers (tolls, etc.). In Orissa, however, a more liberal policy is followed and 50 per cent. of the proceeds of the motor vehicles tax are distributed to all the local authorities with reference to the mileage of the roads maintained by them. A recent development in certain States is the sharing of land revenue, in addition to the allotment of land cess. The share varies from 6½ per cent. in Bhopal to 25 per cent. in Saurashtra. The primary beneficiaries are the district local boards and the village panchayats, though in Bombay the relevant share (fifteen per cent. of land revenue) is available also to municipalities in respect of such agricultural land as falls within their jurisdiction. A much more ambitious proposal, to which however no effect has yet been given, is that of Orissa; the intention of that State has been expressed to be the diversion of the whole of the land revenue to Anchal Sasans.

18. We are of the view that as a rule, taxes of which the local bodies get some benefit should be taxes for which they bear some responsibility. Where the element of responsibility is absent, assignment of a share of tax amounts merely to a grant-in-aid unspecified as to amount and unrelated to the principles usually governing grants-in-aid. We are therefore of the view that normally grants-in-aid should be preferred to assignments of shares of taxes as a method of financing local bodies. To this, we make two exceptions. They are in respect of the motor vehicles tax and land revenue. The tax on motor vehicles is not so much an assignment of a share as a reimbursement of local revenue foregone. We recommend that the local bodies, especially municipalities and district boards, should receive an adequate share of the State Government's proceeds from the motor vehicles tax and that not less than a fourth of those proceeds should be earmarked for the purpose of such distribution. Our suggestions concerning the principles on which this distribution

should be effected are contained in the chapter on Motor Vehicles Tax. As regards land revenue, we recommend that not less than fifteen per cent. of the collections in the area of each panchayat and (deducting such collections) in the area of each rural board, should be allotted to the panchayats and rural boards concerned. We have already stressed that the most important problem in respect of the rural bodies of local self-government is the need for them to develop and take root. As providing the minimum basis of assured finance for such development, and also as likely to be of great psychological significance for the rural areas, we attach particular weight to this recommendation.

19. Revenue from fees, fines, etc., forms a very small part of the income of local bodies, though the amount itself is appreciable for a few municipal corporations.

Non-tax revenue

Potentially, the income from public undertakings of a commercial character, such as tramways and buses or distribution of electricity, is a significant item of municipal revenue; in actual fact, only a few municipalities and, in particular, municipal corporations have achieved some progress in this important sector of revenue-yielding municipal activities. In most instances there has been neither initiative on the part of the municipality, nor encouragement on the part of the State Government, for the assumption of newer responsibilities of this kind. In fact, in certain States, there has been an actual curtailment of the available sphere. Thus, in Madras and Andhra, the State Governments have adopted the policy of taking over themselves the few electricity undertakings which municipalities have hitherto been conducting. We are of the view that every encouragement should be given to municipalities and other local bodies to develop and expand their non-tax source of revenue, and that these sources should not be treated as limited to the more orthodox items such as licence fees, market charges, etc. The larger municipalities and municipal corporations should in particular be encouraged to undertake public utility services, such as the distribution of gas or electricity and the running of transport organisations. We consider that, except as a last resort and for compelling reasons, State Governments should not take over such services from the municipalities concerned.

20. As for village panchayats, there are a number of miscellaneous sources of non-tax revenue, different for different areas which can usefully be exploited; there are instances of appreciable income being earned by panchayats from the sale of the products of roadside trees, ponds, and lakes; this is especially the case where 'land management' has been entrusted to panchayats under the legislation of the State. By constructing inexpensive shops and stalls at places where regular bazars and shandies are held, some panchayats do, and many more can, secure some income by way of rent. Besides, where there are no co-operative societies undertaking the work of supply of requisites, panchayats may interest themselves in activities such as selling manures, hiring out agricultural implements, or running small flour chakkis, etc. Such enterprises if feasible within the means at their disposal would not only bring in appreciable revenue to the

Non-tax revenue of village panchayats

panchayats, but add to their usefulness in terms of the services they render to the village population.

21. We have already stated that, in our view, the assignment of shares of State taxes should be limited to certain items we have specified, and that, as a rule, grants-in-aid should be regarded as the better method of financing local bodies. The present position is that, except for district boards, grants-in-aid do not form a significant part of the revenues of local bodies.

The table in Statistical Appendix 16 indicates that in terms of the total income of the municipalities of Part A States, the percentage of grants-in-aid varies from as low a figure as 4.2 per cent. to a maximum of 25.1 per cent. in Orissa. The table shows also that the position has remained substantially the same for some time. In fact, it is only in Orissa and Bihar that grants assume a position of importance. Statistical Appendix 17 gives, for the latest year for which the figures are available, the different purposes for which grants-in-aid are given and the amounts thereof. It will be seen from this statement that the larger of the grants is usually for education, one notable exception being Madras, where grants for medical and public health purposes (including water supply and drainage) are of equal importance. In Uttar Pradesh, grants have been mostly given for roads and water supply and drainage schemes. In terms of the States generally, the main purposes of grants may be said to be as follows:—

- (a) to meet a part of the capital cost of water supply and drainage schemes of municipalities;
- (b) for the maintenance of primary schools where the State Governments themselves have not assumed responsibility for this service;
- (c) towards the payment of dearness allowance to staff;
- (d) to meet part of the cost incurred on secondary schools, medical institutions, maternity and child welfare centres and public health measures such as anti-malarial operations;
- (e) towards the pay of certain officers such as engineers and health officers; and
- (f) in rare cases for assisting municipalities with poor resources to balance their budgets.

In most instances, the grant is a fixed uniform proportion of the expenditure on the specified item or service; it usually does not, for different local bodies, take into account their different needs and resources. No State has in this context, a grant-in-aid code that embodies simple and well-defined principles. Further, of course, both the amount of the grant and the payment of the amount are in actual practice contingent upon the State Governments' own finances as these vary from year to year; and complaints have been voiced that the promised grants, not infrequently, fail to materialise

We recommend the adoption by each State of a system of grants-in-aid based on the following principles:—

(1) there should be a basic 'general purposes' grant for each local body other than the bigger municipalities and corporations;

(2) the local bodies eligible for such grant should, within each category (municipality, local board, panchayat, etc.) be classified into a few simple divisions based on population, area, resources, etc., and the grant itself related to these factors as well as to the size of the normal budget of the local bodies;

(3) the basic grant should be such that, after taking into account its own resources, the local body will have fairly adequate finance for discharging its obligatory and executive functions;

(4) the basic grant should be assured over a reasonable number of years—say three or five and, save for exceptional reasons, not be subject to alterations from year to year within that period; and

(5) there should in addition be specific grants (annual and other) which, as at present, will be for particular items and services. These should be conditional on (a) the particular service being maintained at a prescribed level of efficiency and (b) the local body exploiting its own resources to the extent indicated by Government from time to time.

22. One of the features of the suggested system is the correlation between the specific grants (recurring and non-recurring) and the efforts of the local body to utilise its own resources adequately. These efforts, in the context of village panchayats, should be construed not necessarily or wholly as taxes levied and collected, but increasingly in terms of the manual labour contributed. In no case, however, should manual labour be equated with tax payment. We consider that a 'labour tax' should be ruled out altogether as a possible feature of local or other taxation. So far as the relation between grants-in-aid and labour is concerned, therefore, our recommendation is that specific grants-in-aid should be linked with voluntary contributions in labour (or cash) mobilised by the panchayat. In particular, for specific and approved developmental works in the rural areas, the State Government should give grants-in-aid subject to the condition that the panchayat contributes a certain proportion of the total cost in labour or cash. So far as the State Government's part of the commitment is concerned, we would mention that we have come across instances in which such commitments were not fulfilled, though meanwhile they had evoked the necessary response from the villages. It is needless to add that each such default meant that the villagers ceased to be enthusiastic about the making of voluntary contributions.

23. Among the most pressing needs of municipalities is that of capital funds for undertaking long-deferred projects of water supply, drainage, slum clearance, etc. Few municipalities find it possible to raise money in the open market and even some of the bigger corporations experience considerable difficulty in securing adequate loan capital. Part of the difficulty is, of course, common to all loans including those raised by Government. In addition,

Grants-in-aid for village panchayats

Loans and subsidies

there is the consideration that the credit of the newly established corporations and of municipalities generally is not so great as to permit them to raise loans at a reasonably low rate of interest. Lastly there is the fact that the bonds of municipalities in general are not *ipso facto* recognised as securities under the Indian Trusts Act as is the case with the bonds issued by the three older corporations. Hence, the big institutional investors such as insurance companies etc., are unwilling freely to invest in these loans. The prospects of local bodies securing the development capital needed on the strength of their own credit is thus very limited. The assistance of State Governments is essential and as one way of their helping to ease the situation, we recommend a much more general adoption of a system of Government guarantee of municipal loans. Even this will not suffice for the smaller municipalities; the State Government will have to provide them the loans and, since their own resources are limited, will have to pursue a phased programme of assistance related to the needs and priority of the different municipalities in their area. Part of the assistance will have to be in the form of graded subsidies to the bigger municipalities no less than the smaller. We make the assumption that adequate funds for this purpose will be provided in the next Five-Year Plan.

24. The six taxes which we have recommended should be 'reserved' for local bodies are particularly suitable for levy by municipalities and municipal corporations; so also are the theatre or show tax and the duty on transfer of property. The Acts governing municipalities and municipal corporations should, in our opinion, contain provisions which ensure, and not merely enable, the levy of all these taxes. Adequate minimum rates of levy should be provided in the statute, and the levy itself made obligatory on the local bodies concerned. For making available the additional finances which these may require after adequately utilising tax sources placed at their disposal, different methods will have to be followed for municipalities and municipal corporations. For corporations as well as for the bigger municipalities generally, in view of their relative efficiency as municipal bodies, we recommend the transfer of additional tax powers as the appropriate method. In respect of the smaller municipalities, however, we recommend that in addition to the powers of taxation already referred to, the usual method of increasing their resources at least for a period should be the making of grants-in-aid. In making this recommendation, we take into account the fact that broadly speaking the smaller the municipality, the greater the difficulty of imposing *new* taxation, until the municipality has had a chance of demonstrating its ability to provide visible benefits for the population it serves. Local bodies are more directly associated than either the State or Central Government with the rendering of services and, therefore, taxation too is more demonstrably required to be justified by the service performed. Public criticism against additional local taxation will, therefore, be greater where the local body has not yet adequately provided essential amenities such as a protected water supply, etc. Often, a local body is caught in a vicious circle, for even the entire amount of taxation may not enable it to provide the required amenities, unless it is helped liberally by the State Government and this inability to provide the services further

**Additional resources
for municipalities and
municipal corporations**

cripples its ability to levy and collect taxes. This explains our emphasis on grants-in-aid as an appropriate transitional means of increasing the resources of such of the smaller municipalities as have already reasonably exploited the particular taxes which we have mentioned.

25. In respect of district boards or other rural boards, we consider that the two main taxes which are suitable are the land cess and the duty on transfer of property. We have recommended that they should also get a share of the land revenue collected by Government. Any additional finance which it may be necessary to place at the disposal of the rural boards should ordinarily be made available to them in the form of grants-in-aid.

**Additional resources
for rural boards**

26. We have already pointed out that one of the main problems connected with the financing of village panchayat, by one or more of the means available, arises from the necessity to give these institutions an initial chance to establish themselves as bodies demonstrably useful to the village community. The actual fact remains that, as a general rule, what is done by State Governments is to invest them with numerous tax powers and then leave them to fend for themselves. Usually, therefore, panchayats start on their career either by earning resentment through taxation or, where they refrain from this measure, by earning contempt through inactivity. That is why we have emphasised that, when a panchayat is established, it should not be compelled to levy taxes immediately, but should be financed from other sources for an initial period of two or three years. If each panchayat is adequately financed by the State for the first few years of its existence, it can try to achieve concrete results during that period, and make itself more acceptable to the village in the additional aspect of a tax collecting body. The initial assistance should, in particular, be directed to meeting some of the more pressing needs of the village, such as clean drinking water, all weather roads, a primary school, a dispensary, etc. The financial aid should take the form, partly of an assignment of an appreciable portion of land revenue, and partly that of general and specific grants-in-aid. Further, as we have already stated, the specific grants should be related to voluntary contributions from the area of the panchayat in the shape of cash and of manual labour. The system of initial financing here suggested will, however, be impracticable if the States follow a policy of wholesale establishment of panchayats unrelated to resources, both financial and administrative. The expansion of panchayats should, of course, not be avoidably slow; it is at the same time necessary that it should be planned and deliberate and that adequate provision should, at each stage, be made in terms of money and trained personnel. To multiply panchayats without ensuring their stability and usefulness is hardly the best way of implementing the Constitutional directive which exhorts their establishment. We may refer, with approval, to the policy that is being pursued by the Government of Bihar in the matter of establishing panchayats. It is the prescribed practice in that State, as the first step in each instance for a non-official panchayat to be organised in a village or a group of villages having a population of not less than 1,000 adults. The panchayat thus formed is exactly on the model provided for in the Panchayat Act but the body is

devoid of statutory powers. A set of constructive works is prescribed for testing the willingness of the inhabitants and only when they execute those works and are found fit otherwise that the Panchayat is notified under the Act. Elections according to the statutory provisions of the Act are then held and a full-fledged statutory panchayat set up in the village or villages concerned. Such a policy is likely to be more fruitful of lasting results than one of simultaneous creation of hundreds of panchayats which function more in name than in substance. Even after the initial phase has been passed and the panchayat has adequately established itself, it would not in most cases be either practicable or desirable to expect the panchayat to raise the bulk of its income from taxes which are levied and collected by itself. Provision must be made for an appreciable part of the income being derived from non-tax revenue, assignment of a share of land revenue and grants-in-aid. This does not, of course, mean that the panchayat should not in due course be encouraged or even compelled to levy all the taxes it suitably may. At the same time, it needs to be noted that the range of suitable taxation is, for more than one reason, limited in the case of panchayats. From the point of view of staff and personnel available, it is obvious that panchayat taxes should be such as are simple to assess and cheap to collect. From this point of view many of the taxes which the panchayats are empowered to levy under the Acts of different States can hardly be considered suitable. In some instances, panchayats have been empowered to levy octroi duties and tolls which are obviously inappropriate. Taxes on marriage, births and adoptions, a tax on the collection of firewood (Assam), tax on owners of animals, carts and cycles and the many other minor taxes featuring in more or less every Panchayat Act do not have much value from the point of view of revenue. We recommend the following four taxes as the principal ones to be levied by village panchayats:—

- (1) General property tax;
- (2) service taxes;
- (3) land cess; and
- (4) a duty on transfer of property.

In addition, powers to levy the tax on vehicles, the profession tax and the theatre or show tax may be devolved on individual panchayats found suitable for the purpose by State Governments.

27. One of the greatest drawbacks of local bodies has been the inefficiency in tax administration that many of them have displayed. This applies to both assessment and collection of taxes. Where administrators have been appointed, improvement has been demonstrably visible. We are of opinion that the appointment of an independent executive official is both desirable and necessary. The appointment of an independent executive already functions smoothly and efficiently in municipal corporations. We believe that it may, with every prospect of similar success, be extended to municipalities also. We accordingly recommend, firstly, that all

**Administrative
machinery**

municipalities should have chief executive officers in whom the executive powers and administrative responsibility should vest by statutory provision, and secondly, that the chief executive officers should be selected and appointed by Government or by an independent statutory board.

Even where Government are the appointing authority, there have been some complaints that comparatively inexperienced officers with no particular qualifications were selected or deputed from Revenue and other Government Departments. Since the reason for the appointment of executive officers is to make the administration efficient, it is obvious that the very purpose would be defeated in case unsuitable personnel is selected or deputed. We recommend that a State cadre of municipal executive officers should be formed in each State and competent persons with requisite qualifications recruited to it. It is gratifying to note that the need for separating the deliberative and executive functions is now widely recognised as is evident from the following recommendation of the Committee of Local Bodies which was made at a recent conference of the Local Self-Government Ministers:—

“For improving the standards of administration in local bodies there is a very good case for separating as far as possible, their purely executive functions from their deliberative or policy making functions. The latter category of functions should appropriately be the sphere of the elected wing of the local bodies. Once policies and decisions have been adopted, however, their implementation and execution should be left to the principal executive officer who must be made primarily and directly responsible for this part of the work. As a necessary corollary to this principle, the more important executive posts in the local bodies should be centralised on a Statewide basis and should be made transferable.”

28. The recommendation we have quoted goes farther than the creation of a State cadre for chief executive officers only. The question arises as to what other posts should be centralised on a State basis. The Local Finance Enquiry Committee has recommended that in order to improve the financial administration, the position of the head of the Accounts Department should be strengthened and that he should be a qualified and specially selected person, particularly in bigger municipalities with an annual income exceeding Rs. 1 lakh. It is also of the opinion that in regard to the recruitment of the ‘higher financial personnel’, there should be a provincial cadre for such services. The Local Self-Government Ministers’ Conference held in New Delhi in 1948 was of the view that all higher executive and technical staff should be recruited to State cadres. We are in agreement with this view.

29. The enforcement of effective control will not, however, be secured merely by the centralisation of cadres. Such a process, it may be noted, has already gone quite far in Madras, Andhra and Hyderabad, the farthest being in Hyderabad, where most of the staff drawing over Rs. 100/- per month is appointed by the State Government and paid from a fund created for the purpose. The

centralisation of cadres as it operated in these States has revealed two weaknesses against which the municipalities complain.

The first is the inadequacy of the control which the executive officer himself can exercise over the other officers serving under him in the municipality and the second, lack of co-ordination. Thus, in regard to Andhra and Madras, it is complained that the municipal engineer and the municipal health officer look to the State's Chief Engineer and the Director of Public Health respectively; that there is no co-ordination between the three officers, *viz.*, engineer, health officer and municipal commissioner; that the chairman of the municipal council has absolutely no power to co-ordinate the work of these officers or to settle differences or to lay down a policy. This, it is said, gives rise to much friction. In Hyderabad too a similar complaint has been voiced.

30. The danger of lack of co-ordination is real and must be guarded against. We are of the opinion that division and dispersal of responsibility will ultimately strike at the efficiency of municipal administration. Responsibility must be vested in a single individual who would be answerable directly to the municipality. We, therefore, recommend that even when State cadres are created, the responsibility in respect of a municipality should vest in the chief executive officer of that municipality and the entire staff should be under his control. The departmental heads in the municipality should not be allowed to feel that they have independent powers or are independently controlled and, therefore, can defy the authority of the executive officer who must be the controlling and co-ordinating authority and should have sufficient powers to give effect to his orders.

No system will work unless competent personnel are attracted to it and retained in it. Therefore, the staff recruited should not merely be well-trained but adequately paid. The State Governments should, where necessary, meet a part of the establishment costs either directly or by taking such costs into consideration in fixing the general purposes grant. This will be particularly called for in respect of the smaller municipalities.

31. Of the various branches of local administration, much the most important is that dealing with taxes. Tax administration, has two aspects: the assessment of the taxes and their collection. In the matter of collection of all taxes including the property and service taxes, the ultimate responsibility should be that of the executive officer himself. Likewise, in respect of the assessment of taxes, other than the property tax, it is sufficient if the power vests in the executive officer. For assessing the property tax, however, there should be an independent agency. The Local Finance Enquiry Committee has made detailed recommendations for the creation by each State Government

of a Valuation Department for all local bodies of the State. We reproduce the recommendations:—

“Valuation of property is such a highly technical business that it cannot be entrusted to any person who has not received training, however competent he may otherwise be. There is a great difference between ordinary administrative work and the valuation of immovable properties, particularly, properties other than residential houses. In the determination of their annual value so many principles and standards of valuation have to be applied that the work cannot be entrusted even to members of the Civil Services from whom usually Executive Officers of Municipalities are recruited. While the taxing authority should continue to be vested in the local bodies, the detailed work connected with the preparation of the valuation list of all the properties within the jurisdiction of a local body should be entrusted to a central organisation (to be created for this purpose) which will consist of trained valuers as in western countries. Even in England, where local bodies are tenacious of their rights, the task of valuation has been taken away from them under the Local Government Act of 1948 and vested in the Board of Inland Revenue. We are of the opinion that a similar step should be taken in each State in India. A valuation department should be brought into being for all the local bodies within the State. Its duty will be to see that the valuation list is correct and up to date for each local body. The valuation list as prepared by this department should be forwarded to the local body concerned and should be published. Any person, including the local body itself, will have the right to object to any valuation included in that list. But it will be not open to the local body to alter any entry as made by the Valuation Department. It will have to make a representation against such entry and if the Valuation Department is not satisfied with the objection and the local body or the person making the objection feels aggrieved by such action, it will have the right to appeal to a local tribunal called the local valuation court. The decision of the valuation court will be final on points of fact. On points of law an appeal might be allowed to a District Court, or even to a High Court, as may be deemed proper. But no person will have the right to withhold the payment of the tax, pending the disposal of his appeal. What the constitution of the local valuation court should be, is not a matter into which we need enter. This can be dealt with by the State Government. It should be a tribunal in whose independence and fairness of judgment both parties have confidence. The creation of a trained staff of land valuation experts is a matter of time. In three or four years the scheme should begin to work satisfactorily.”

We generally endorse the suggestions of the Local Finance Enquiry Committee and urge that a State-wide valuation department should be created in each State for undertaking the work of valuation of properties within municipal areas. We, however, consider that municipal corporations and village panchayats should be excluded

for this purpose, the first because they are in a position themselves to employ staff which is adequately trained and the second because they are too numerous and the problem of assessment has not so far assumed any large dimension with respect to panchayats. Whether the valuation department should eventually cover panchayats as well may be examined in due course in the light of experience and of the development of property taxation as a feature of panchayats.

32. In conclusion, we would observe that the State Government as constituting the representative governing authority in a State has a vital role to play in ensuring the proper functioning of local bodies.

Role of State Governments

It is its responsibility to see that local bodies are efficiently organised, that they perform their functions properly and that they take adequate part in the development of the country. The role of State Governments has, therefore, not merely a negative aspect, viz., the prevention of the misuse of powers, etc., by local bodies through audit and periodical examinations, but a positive one, viz., the active encouragement and development of local bodies. This aspect is of special importance in relation to the rural institutions of local self-government, notably the panchayats. Government control and help should, however, be not so meticulous or minute as to destroy the autonomy or self-reliance of local bodies. The goal of State effort as well as the purpose of State control should be the development of local self-governing institutions into efficient instruments of administration, capable alike of formulating policies and of executing them.



CHAPTER III

TAXES ON PROPERTY

Though the relative importance of taxes on property in modern fiscal systems has been reduced by the development of the income-tax, death duties and commodity taxes, the property tax still remains the largest and most important source of tax revenue for local authorities in several countries, *e.g.*, the United Kingdom, Australia, U.S.A., and Canada. In India too, in the form of taxes on buildings for municipal corporations and municipalities and of cesses on land for district local boards, the levy on property remains the largest source of tax revenue for local bodies as a whole.

2. In the context of local taxation, property taxes may be regarded as of four principal categories:—

- (1) Taxes on buildings (including taxes on buildings in conjunction with lands and on lands which are vacant but are capable of being built upon).
- (2) Taxes on unearned increment in connection with town improvement ('betterment') schemes.
- (3) Taxes in the shape of a stamp duty on transfers of property.
- (4) Cesses on lands (which are usually cesses on the land revenue to which the lands are assessed).

Taxes of the first category are the property taxes levied by municipalities, municipal corporations and village panchayats. In some instances (Bombay and Punjab) the State Governments too, in addition to local bodies, levy property taxes of this description. Taxes comprised in the second category are levied by the authority which undertakes the improvement schemes. Taxes of the third category are mainly levied by the State Governments, though the local bodies in some States are allowed to impose a duty on transfers of immovable property, in addition to the stamp duty levied by the State Governments. The fourth category of taxes, *viz.*, cesses on land, are usually levied by local boards and village panchayats.

(1) Taxes on lands and buildings

3. Taxes on lands and buildings (sometimes called taxes on 'holdings'), levied by municipal bodies, take the shape of general taxes and service taxes. Service taxes are broadly in the nature of charges for water, drainage, lighting, conservancy, fire fighting, etc. They are usually collected along with, and assessed on the same basis as, the general taxes. In some instances (*e.g.*, the Calcutta Corporation), the general taxes and service taxes are combined into a 'consolidated rate'. In some States, an education tax is levied as one of the surcharges on property tax in order to supplement the finances available for primary education. In addition, a library cess is levied in Madras and Andhra at the rate of six pies per rupee of property tax (excluding education tax) and the proceeds are

credited to the local library authorities (who are different from the municipal authorities). In Mysore, a health cess is levied as a surcharge on various taxes including property tax and the proceeds credited to the State Government to finance the expansion of medical and public health services.

4. A provision for the compulsory levy of property taxes exists in respect of municipal corporations in the States of Bombay and Madhya Pradesh. (The **Extent of levy** Jabalpur Municipal Corporation, which has been recently established, has not yet commenced levying the general tax, though service rates have been imposed). Though optional in the statutory sense, the property tax is levied by all municipalities in the States of Andhra, Assam, Bihar, Bombay, Madras, Orissa, West Bengal, Hyderabad, Mysore, Travancore-Cochin, Delhi and Coorg. Its levy is not universal in the States of Madhya Pradesh, Punjab, Uttar Pradesh, Madhya Bharat, PEPSU, Rajasthan, Saurashtra and Himachal Pradesh. The levy is confined to 73 out of 112 municipalities in Madhya Pradesh; 40 out of 61 municipalities and thirteen out of 33 small town committees in Punjab; 37 out of 120 municipalities in Uttar Pradesh and 73 out of 84 municipalities in Madhya Bharat; two out of 21 municipalities and 37 town committees in PEPSU; and one out of 139 municipalities in Rajasthan. The present annual income of all municipalities and municipal corporations, in all the States, from property taxes is about Rs. 24.4 crores, representing 58.1 per cent. of the total income of these bodies from all taxes.

In Andhra, Bombay, Bihar, Madras, Madhya Bharat, Mysore, Orissa and Punjab, the levy of the tax is compulsory in respect of village panchayats. Even where it is optional, the policy of most States is to encourage village panchayats to levy the property tax.

Appendix E to this volume sets out in detail the extent of the levy of the property tax by municipal corporations, municipalities and village panchayats.

The property tax is not levied by district local boards or other rural boards in any State, except sometimes as a composite 'property and circumstances' tax, which is more in the nature of a profession tax than a property tax.

5. The property tax is based on the annual or capital value of property. Following the English practice, it has from the beginning been confined to immovable property. Indeed, it derives its Constitutional authority from item No. 49 of the State List, viz., "tax on lands and buildings". In most municipalities, it is the annual value or 'rateable value' which is the basis of the tax. This in turn is generally arrived at on the basis of rent at which the property can be reasonably let from year to year. There have been demands that the basis should be changed to one of actual rent. In all States except Uttar Pradesh, the Municipal Acts prescribe that the annual value should be based on the annual rent at which the property can be reasonably let. In practice, the actual rent is accepted as the 'reasonable rent', unless collusion, concessional rent, etc., are suspected. We are of opinion that the right to assess on a 'reasonable rent' is a valuable safeguard against collusive fixation of lower 'actual

rents' and recommend no change in the present legal provisions and general practice.

6. During and after the War, several States have controlled the rents of buildings in towns by enacting Rent Control Acts. Generally, the control takes the form of protecting the tenant with reference to the rent which prevailed on a specified date and of laying down that this cannot be increased at all or cannot be increased beyond a specified percentage. Though the Acts governing municipalities in the Madras State provide for assessment of buildings on the basis of reasonable rent (and not of actual rent), the Government of Madras have issued strict executive orders to the Madras Corporation and all municipalities in the State that buildings should be assessed only on the basis of the controlled rent paid. In the case of owner-occupied buildings, the valuation, similarly, was not to be increased over the valuation in force in 1939 beyond the margin of increase allowed in the Rent Control Act. These orders are in force in the Andhra State also.

Statutory recognition of this principle is contained in the Calcutta Municipal Act which provides that, in respect of any land or building, the standard rent of which has been fixed under the West Bengal Premises Rent Control Act, 1950, the annual value thereof for purposes of assessment shall not exceed the annual standard rent so fixed.

On the ground that the virtual freezing of rents which has thus resulted from various Rent Control Acts, has adversely affected the income of the local bodies from their most important source of revenue, it has been suggested that they should be permitted to fix the annual values of buildings, the rents of which are controlled, not on the basis of the controlled rent, but if need be at a higher amount on the ground that it constitutes the 'reasonable' rent. To prevent hardship to property-holders, it has been further suggested that the rent restriction Acts should be amended so as to permit the passing on to the tenant of the increase in the property tax consequent on the higher assessment thus made by the municipality. It is not our province to enquire into the reasonableness or otherwise of the different levels at which rents are controlled in different urban areas by different State Governments. For our purposes, the controlled rent must be assumed to be the reasonable rent; and we are unable to agree that municipalities should in effect be permitted to ignore the very fact that a particular limit has been set by statute to the rent which the landlord may levy and make the assumption that he may 'reasonably' obtain a rent which exceeds that maximum. Nor are we able to agree with the other suggestion, *viz.*, that the landlord should be permitted to pass on to the tenant the increase in the tax which would result from the previous proposal. The real issue raised by the suggestion is in regard to the level at which the rent happens to be controlled, and the proposal is in effect that that level should be raised to the extent that the tax may be raised on the basis of a 'reasonable' assessment higher than the controlled rent. This raises the larger question as to the levels at which rents should be controlled from time to time. What is clear is that the municipality cannot through revision of assessments, be allowed in effect to decide that question and in individual cases alter the level prescribed by Government.

7. While rent forms the main basis for calculating the annual value, other factors are sometimes taken into account. Where 'rent' cannot be estimated in the usual manner, as in the instance of cinemas theatres, hospitals, Government and Railway properties, Port Trust properties, etc., other methods have to be used for arriving at the annual value. In some cases, a percentage of the capital value of the property is prescribed as the annual value. Statutory recognition of this principle is incorporated in the Calcutta Municipal Act, for example, where it is provided that if the gross annual rent of a building, not ordinarily let, cannot be easily estimated, it shall, for the purpose of fixing the annual value, be deemed to be 5 per cent. of the value of the building; this value is to be obtained by adding the estimated cost of erecting the building at the time of assessment (less a reasonable amount to be deducted on account of depreciation, if any) to the estimated present market value of the land valued with the building as part of the same premises. Likewise, in the case of a building used as a public cinema-house or theatre or other similar place of public resort, recreation or amusement, the gross annual rent of the building shall be deemed to be *not exceeding* five per cent. of the gross annual receipts in respect of the cinema-house etc., including receipts from rent, and advertisements and sale of admission tickets, but excluding taxes on the sale of such tickets. By either method, it may be noted, what is sought to be arrived at is the annual value.

8. In a number of States, annual value is to be refixed every three years or every five years. Under the provisions of the Bombay Municipal Corporation Act, it is permissible to revise the annual value every year.

Periodical fixation of annual value

9. The other important basis is capital value. Its use in India is restricted. Village panchayats are usually allowed to choose either annual value or capital value as basis of levy of the property tax.

Capital value

A third basis, which has been prescribed in respect of village panchayats in Madras, is related to the plinth area and the type of construction.

10. In certain countries, e.g., the United States of America, Canada and Australia, it is the capital value of properties that forms the basis for the levy of local taxes. It is contended by some that the capital value will more closely reflect the rise in values of urban properties and hence is likely to yield larger revenue to municipalities and corporations where increase of urban land values is the normal feature. A general replacement of annual value by capital value as basis of assessment has accordingly been suggested by some.

The fixation of the rental value of residential and rented out buildings, which form the bulk of the buildings in towns and cities, is simpler than the determination of their capital value. Further, capital values of properties fluctuate to a more significant extent than rental values. The levy of the tax on the basis of actual or reasonable rent is a levy on the actual or potential income from the property and to that extent is a more equitable method of taxation than one based on capital value. It may be recalled that the Local

Finance Enquiry Committee suggested that "there should be no change from the well-tried basis of rent to the more or less uncertain basis of capital value. Where, however, municipalities are actually adopting capital value as the basis and there is no complaint, that basis may continue". We recommend that the annual value, based on the rent at which properties may reasonably be expected to be let, as at present interpreted in practice, should be the normal basis for the levy of property tax, subject to the basis of capital value being adopted in special cases of the type already noticed. With regard to properties of a class not ordinarily let or where the annual rent cannot be estimated, a percentage, not less than five per cent. of (a) the estimated cost of construction of the building at the time of assessment (less a reasonable deduction on account of depreciation) *plus* (b) the estimated value of the site, may be taken as the annual rental value. In the case of vacant lands in urban areas, which are not appurtenant to buildings and which are not used for agricultural purposes, either a percentage of the capital value (e.g., five per cent.) may be taken as the annual rental value or the tax may be levied at a percentage of their capital value. We find that building sites in urban areas are often inadequately assessed and would stress the desirability of their being properly valued and taxed. As for houses in villages, we consider that the house tax may normally be levied on the basis of capital value which, in their case, is easier to determine than rental value on account of the fact that most of them are occupied by their owners.

11. The laws of certain States lay down the maxima for the levy of property tax by municipalities and municipal corporations. In the case of the Bombay Municipal Corporation a minimum also is fixed. Statistical Appendix 18 gives the rates of the property tax and service taxes levied by municipal corporations and municipalities in the several States; and Statistical Appendix 19 indicates the total rates (i.e., property taxes *plus* service taxes) levied in the principal municipal corporations and in some of the municipalities of different States. The rates may be said to be pitched at an adequately high level in Andhra, Assam, Bihar, Madras, Orissa and West Bengal. It may be noted that in these States, municipalities do not levy octroi or terminal tax on goods so that the property tax forms the principal source of income.

12. The property tax is usually levied at the same rate for different rental values. The Local Finance Enquiry Committee, it may be mentioned, was "generally in favour of a progressive scale, adoptable at the discretion of the municipality concerned".

Progression in this tax is a comparatively recent feature. It appears in the rate structures of the municipal corporations of Ahmedabad, Bangalore, Calcutta, Madras and Poona and of a limited number of municipalities. Thus in Calcutta the rate of levy varies from 15 per cent. to 23 per cent. of annual value with intermediate gradations. The minimum is applicable to annual values which do not exceed Rs. 1,000/- and the maximum to values above Rs. 12,000/-. In Ahmedabad, there is found in addition a system of progression based on user; thus, higher rates are levied on non-residential buildings, mills and factories.

In several class I panchayats in Madras State, the house tax is levied on a progressive scale on rental values.

13. In Assam, Bihar, Orissa and West Bengal (other than in Calcutta Corporation) the tax is levied at a concessional rate on costly buildings. Thus in **Regressive rate in a few States** Assam, in the case of holdings with an annual value exceeding Rs. 7,500/-, the tax on the excess is levied at only one-fourth of the rate applicable to other properties. Likewise, in Bihar and Orissa, in the case of buildings costing over Rs. 5 lakhs in Patna City and Rs. 1 lakh in other municipalities, the tax is levied at one-fourth of the ordinary rate on the value in excess of those figures. In mofussil municipalities in West Bengal, where the market value of a building exceeds Rs. 3 lakhs, it is provided that the rate to be levied in respect of the value in excess of the amount shall not exceed one-half of the general rate ($7\frac{1}{2}$ per cent. of the market value is taken as annual value). These are instances of a type of regression for which, in our opinion, there is no justification. We recommend that the State Governments concerned should take steps to eliminate these and other regressive features in the levy of the property tax.

14. The further question is whether a system of progression should be more extensively adopted in respect of property taxation. Progression in property taxes has been suggested firstly as an application of the principle of ability to pay and secondly as a measure which would secure larger revenue for the local bodies. We consider that the utility of this suggestion is severely limited in practice. For obvious reasons, it is not feasible to operate a system of levy of property tax which takes into account the total ability to pay, i.e., the total income from all sources; that is a function of the income-tax. The burden of progression will therefore be especially on those whose main form of possession or source of income is immovable property as distinguished from other types of possessions or investments; and among these will be found not only the bigger investors and property-holders but the medium investors and the medium owner-occupiers of residential houses.

A theoretical pursuit of progression will imply a relatively high exemption limit such as few municipalities now provide for; it will also, of course, imply gradation of rates above the exemption limit. Thus, in the case of the Calcutta Municipal Corporation, the introduction of progression has been accompanied by so appreciable a reduction of the rate on the lower valuation groups that a substantial loss of income has been entailed on the Corporation; at the same time, the introduction of four different slabs has added very considerably to the difficulties of assessment and administration. Both exemption and lower rates will, for the smaller municipalities, imply a loss of revenue which it will be quite impracticable to make up by higher rates on the relatively few bigger properties. For all these reasons, we are of the view that, broadly speaking, progression cannot suitably be introduced as a feature of the property tax levied by local bodies. But that does not mean that an element of progression may not be desirably adopted by the municipal corporations and the bigger municipalities as a part of the rate structure of the property tax. Even in such cases, the total exemptions should

be limited, the minimum rate should be adequately high and correctives should be provided to prevent the imposition of unduly high rates on industrial housing, co-operative housing, etc.

15. Apart from the properties of the Union exempted under the Constitution, two other classes of properties are normally granted exemptions:—

Exemption from property taxes

- (a) properties used for specified purposes; and
- (b) properties which are below a certain annual value.

Service taxes are generally collected (except in Madras and Andhra) even where exemption from the general tax is granted.

While in most of the enactments, the provisions specify the particular classes of use (generally, use for religious, charitable and educational purposes) which entitle properties to exemption from the tax, in some States, *e.g.*, Uttar Pradesh and Madhya Pradesh, the power to notify such exemptions is given in general terms either to State Governments or to local authorities on condition that the sanction of the State Governments is previously obtained.

We recommend that properties used for religious, charitable and educational purposes may continue to be exempted from property tax, but that the principles of such exemption should be clearly specified in the Acts governing the local bodies and not regulated by executive orders. We also endorse the recommendation of the Local Finance Enquiry Committee that the list of properties exempted from the tax should be scrutinised from time to time and made available for public information.

16. The Local Finance Enquiry Committee has expressed the opinion that there should be no exemption from the property tax merely on the ground of the annual values being below a particular monetary limit and that such exemptions, wherever they exist, should be abolished. The exemption limits actually prescribed are low enough, in most cases, not to constitute a serious encroachment on the revenue from property tax, either by themselves or through deliberate under-valuation in order to bring annual values to below these limits. Most State Governments also take the view that properties below a specified annual value should be exempt. The justification for exemption below a certain level rests on two grounds. Firstly, when the value of the property is below the very low minimum fixed, it represents, on the part of the owner or occupier, a standard of income or living which deserves exemption. The second and more valid ground is the disproportionate administrative cost; at the lowest level, the yield may not be even equal to the cost of collection.

We recommend that, below a specified minimum which should be so fixed as to cover only the lowest rental values, properties might, though not as an invariable rule, be exempted from the property tax, provided the owner does not own any other building or land assessed to the tax and is not liable to pay profession tax or income-tax. Such exemptions would be particularly justified if they are reinforced by the existence of administrative considerations such as we have mentioned.

17. It is probably true that owner-occupied properties, as distinguished from those which are rented, are under-assessed in most States. Entirely apart from this, concessional rates of levy are provided for such properties in one or two States. In Uttar Pradesh, a 25 per cent. concession is admissible in respect of owner-occupied properties; but the Grants-in-aid Committee appointed by the Government has recommended its abolition.

Concessional assessment and rates in respect of certain categories of properties

The case for according preferential treatment to owner-occupied properties may be said to rest on two arguments. Firstly, it is urged that owner-occupied properties do not bring in any income: the capacity to pay in respect of such properties is less and, therefore, they should be assessed to lower rates. Secondly, it is said that it is socially desirable to show some consideration to people who save in order to have their own houses to live in.

Neither appears to us a valid argument. Municipalities confer benefits of which only specific items are covered by specific service charges. The larger benefits are available to owner-occupiers no less than to those who rent out their properties; both classes should therefore contribute to an equal extent. Any relief or encouragement to be given in respect of house properties should be done by appropriate reliefs granted in the context of income-tax, etc., and not of property tax.

18. A proportion of the property tax is usually remitted when properties are unoccupied or vacant during a part of the taxable period. Statistical Appendix 20 summarises the position in some of the States. There is scope for wider application of one or two principles. We generally agree with the recommendations of the Local Finance Enquiry Committee that remission of property tax need not be given in respect of vacant buildings, where the period of vacancy is less than 90 consecutive days in a year; and that the remission should be limited to a maximum of one-half of the tax due.

Remission in respect of vacancies

19. The properties of the Port Trusts of Bombay, Madras and Calcutta are subject to property taxes. The rates of levy and, in general, the provisions which govern the liability are different for the different bodies. In Bombay, the Port Trust pays 19/20th of the rate of tax payable by other assesseees; the principles of valuation are the same as for other assesseees, but the valuation itself is to be made by a person appointed by the Central Government once in five years. In Calcutta, according to section 169 of the Calcutta Municipal Act, the Port Trust properties are taxed on the basis of their annual value which is taken as 5 per cent. of the capital value determined on the basis of the actual cost of acquisition or construction of the properties.

Assessment of Port Trust properties

In Madras, under section 102C of the Madras City Municipal Act, 1919, the Port Trust properties are taxed on the basis of the gross revenue of the properties. It is provided that the tax leviable on the properties in any year shall not exceed four per cent. of the gross earnings of the Port Trust in that year.

Comparing the relevant provisions in the three enactments, it is apparent that the simplest and the easiest to operate is the provision

contained in the Madras City Municipal Act. The Calcutta Municipal Corporation has complained of the adverse effect on its revenues of the special provisions which govern the assessment of the Port Trust properties. In Bombay, the valuation of the properties of the Port Trust was last done for the period 1939—44 and the Bombay Municipal Corporation has been receiving taxes on the basis of this out-dated valuation. We understand that, owing to disputes on certain matters, it has not been possible to finalise the valuation for the two subsequent periods. The Local Finance Enquiry Committee has recommended that the basis adopted in Madras should be adopted in Calcutta and Bombay also. A simple and uniform system such as the recommendation envisages has much to commend it. A similar system is in force in some of the States in the United States of America, where in the case of railroads and certain public utilities—the valuation of whose properties raises difficult problems—taxes on gross earnings have been usually substituted for the property tax. It has at the same time been urged that the rate should not be frozen at 4 per cent. as in Madras; this is on the ground that, if the rate of taxation on other properties is increased, it is only proper that the Corporations should secure some corresponding return on the Port Trust properties as well. There is much force in this contention. We recommend that all Port Trust properties may be assessed to municipal property taxes at a percentage of the gross earnings of the Port Trusts. The basic percentage may be four per cent. but provision should be made for increasing or decreasing it by, say, a quarter per cent. for every per cent. of the general increase or reduction effected in the rate of the tax in respect of other properties. This will be a simple method, avoiding all difficulties of valuation and should be deemed equitable to both the Port Trusts and the municipal corporations.

20. On their properties situated in municipal areas, almost all State Governments pay either a property tax or an *ex gratia* contribution in lieu of such tax. Some State Governments have reserved the power to exempt from the tax such Government lands as in their opinion are not likely to yield any income to Government. In the municipalities of Madhya Pradesh, property tax for general purposes is not leviable on State Government buildings in excess of a rate of $7\frac{1}{2}$ per cent. of the annual value. In the municipal corporations and borough municipalities in Bombay State, and in the Nagpur City Municipal Corporation, State Government properties are nominally exempt from the property tax; in actual fact the Governments pay a contribution equal to eight-tenths of the tax which would be payable but for the exemption.

21. A specific exemption in respect of Central Government properties for the first time appeared in section 154 of the Government of India Act, 1935. The exemption was from all State and local taxes and applied to all Central Government properties except such as were liable to those taxes immediately before 1st April 1937. The same position continues under Article 285 of the Constitution. The effect of this is that the Union Government is

liable to pay taxes, including service taxes, only in respect of buildings which were assessed to local taxes prior to 1st April 1937. Even in respect of these, till recently, the Government of India contended that they would not pay any amount greater than that paid immediately before 1st April 1937, notwithstanding any increases in rates since effected by the local body, or any increase in value that might have since taken place. Recently, however, the Central Government have agreed to make such additional payments as arise from either an increase in rate or an increase in valuation. The new arrangement has effect from 1st April 1948.

22. In respect of properties acquired or constructed after 1st April 1937, which are under the provisions of the Constitution exempt from local taxation (unless Parliament by law provides to the contrary), the Government of India refused till recently to pay anything by way of local taxes. From an official communication which we have been shown, we find that they have now agreed to make payments in respect of 'service charges', with effect from 1st April 1954, on the following basis:—

- (i) The Central Government will make payment in respect of their properties for specific services rendered by local authorities; but payment of such 'service charges' shall be treated not as payment of taxes but of compensation payable in quasi-contract. Specific services will include not only direct services such as water and electric supplies, scavenging etc., but also general services such as street lighting, town drainage, approach roads connecting Central Government properties, etc. But such items as educational, medical or public health facilities will be excluded.
- (ii) For large and compact blocks of their properties, the Central Government will not pay for such specific services as they themselves arrange.
- (iii) As regards assessment, no difficulty should arise in respect of items like metered water or electricity, etc., or where services like drainage and scavenging etc., are charged for separately. But where some or all such specific services are not charged for separately but are part of a consolidated house or property tax, a suitable percentage of such consolidated tax, representing the element of specific services, will be paid by the Government. The State Government concerned may fix this percentage, on behalf of the Central Government for each local body concerned. Similarly, the valuation of the Central Government property may be done by the agency which undertakes the valuation of the State Government property.
- (iv) A Ministry of the Government of India may also enter into separate contract with any local authority for the supply of water and electricity or scavenging or any other service; [It has been added that this arrangement is subject to review and modification, on the recommendation of the Taxation Enquiry Commission. Even otherwise, it has been stated that there would be a review at the end

of ten years to see whether any payment due to local bodies has been denied by the Central Government or whether the Central Government have accepted a larger liability than is warranted.]

23. In respect of Union properties in Part C States, though Article 285 of the Constitution does not apply, section 21A of the Part C States Act has restricted the levy of local taxes on these properties. The exemption from taxes, however, will be available only from 18th March 1954 (the date of enactment of that section). We have thus, for the three sets of States, three different dates with effect from which the properties of the Central Government are eligible for exemption from local taxes, etc., viz., 1st April 1937 for Part A States, 26th January 1950, (the date on which the Constitution came into force) for Part B States and 18th March, 1954 for Part C States. In each case the exemption is relatable to properties not already assessed to such taxes on the relevant date.

24. Even prior to 1st April 1937, railway properties were liable to local taxes only where the Central Government (Railway Board) notified the liability to pay the taxes to the local body under the Indian Railways Act, 1890. The Railways (Local Authorities Taxation) Act, 1941, empowered the Central Government to notify the liability of railway buildings to pay taxes to the local authorities. Accordingly, the Central Government did issue such notifications in respect of several municipalities and local areas. This was the position until 26th January 1950 when the Constitution came into force. In the case of service taxes, the Railway Board assumed liability only where the railways were benefited by the particular service and in proportion to the benefit received. For example, in the case of railway buildings in the State of Madras, the Railway Board notified the liability of railway properties to local service taxes only to the following extent:

Water and drainage tax—

- | | |
|--|-----------------------|
| (a) Where railway has no direct benefit | One-third of the tax. |
| (b) Where the railway has only partial benefit | Half the tax. |
| (c) Where railway has full benefit | Full tax. |

Scavenging tax—

- | | |
|--|---------------|
| (a) Where the railway has made efficient arrangements of its own for removal and disposal of rubbish | No tax. |
| (b) Where the railway has made efficient arrangements for the removal of rubbish but where the local body is responsible for the final disposal of rubbish | Half the tax. |

Lighting tax—

- | | |
|---|---------|
| (a) Where the railway does not take power from the local body for its premises and where roads leading to the railway station are not lit by the local body | No tax. |
|---|---------|

- (b) Where the railway does not take power from the local body for its premises, but roads leading to the railway station are lit by the local body

Half the tax.

- (c) Where the railway takes power for lighting its premises

Full tax (in addition to charges for consumption).

In respect of railway properties constructed or acquired after 26th January 1950, the same principles are sought to be made applicable by the Government of India as they have enunciated in respect of other Union properties in the communication we have referred to above.

25. The Constitutions of several countries provide for the exemption from local rates of the properties of the Government at the Centre; at the same time, in many cases, payments in lieu of the local rates are made to the local bodies by the Governments concerned. As we have seen, the Government of India have also, under the new orders, provided for the payment of certain charges in lieu of taxes payable to local bodies. We consider that these orders call for a certain degree of liberalisation. This is especially so in respect of such of the Union properties as pertain to commercial, semi-commercial and industrial departments like Posts and Telegraphs, Telephones, etc., and railway properties also.

To illustrate our point, we may cite the instance of the Bombay Municipal Corporation which levies property taxes at a total rate of 24½ per cent. as follows:

General tax (including the addition for fire service)	17 3/4 per cent.
Water tax	3 3/4 per cent.
Halalkhore tax	3 per cent.
	24½ per cent.

Out of these items, according to the formula indicated, the Government would be paying the last two taxes in full; but they would hold themselves liable for only a small part of the first, and this would be in relation to specific services not otherwise covered, e.g., approach roads and lighting of approach roads. It may well be that, on this basis, the Central Government's payment would amount to about nine or ten per cent. as against the total levy of 24½ per cent. on the normal assessee.

Likewise, in Madras where the aggregate property tax levied is 23 per cent. (general tax 14½ per cent., water and drainage tax 3½ per cent., light tax two per cent. and education tax three per cent.), the Central Government, we may assume, would pay about seven per cent.

26. We consider that, in fairness, the Central Government should make the full contribution in respect of railway properties and other properties used for commercial or semi-commercial and industrial purposes, e.g., Posts and Telegraphs. With regard to such properties of the Union, therefore, we recommend that the requisite

legislation should be passed by Parliament authorising the payment to local bodies of amounts equivalent to those which would have to be paid had the general and service taxes been levied in full. In respect of other properties, while we acquiesce in the position that payments will be made by the Union Government in accordance with the formula referred to above, we would emphasise that, in practice, the formula itself should be liberally interpreted and applied. We note that the working of this formula will be reviewed at the end of ten years.

27. With a few exceptions (the Calcutta Municipal Corporation and the Howrah Municipality), all municipal **Service taxes** authorities are empowered to levy 'service' taxes, viz., taxes which are in addition to the general rate, which (like the general rate) are assessed on the annual value of properties and which are intended to cover the cost of specific services. Instead of levying a service tax, it is also provided in some of the enactments, that charges can be recovered by the sale of the service commodity directly, e.g., sale of water at the rate of so many rupees per thousand gallons. Water tax, drainage or halalkhore tax, scavenging tax, lighting tax, and fire tax are the important service taxes levied in various States.

Certain features of the service taxes are that in most States: (1) the tax can be levied only after the concerned service has begun to be rendered; (2) it can be levied only in areas where the service is in fact rendered.

If a service is rendered throughout the area of the municipal body, it matters little whether the expenses are to be covered by an increase in the general rate or by a special rate for the service. For example, in some States, where public street lighting is undertaken by a municipality a lighting rate is permissible; while in other States, the lighting of public streets is taken to be a normal function of a municipality and it is covered by the general rate. However, where the rate may be raised without much opposition if related to a specific service such as water supply, drainage or primary education, it might be advisable to levy a service tax rather than to raise the general rate.

Where there is uneven development in the various areas covered by a municipality and services are rendered in certain localities while they are not available in others, it is equitable that the rate for the service should be limited to the area where the service is either in fact rendered or is likely to be rendered in the near future.

28. Two problems arise in respect of the service taxes. The first is whether exemption from service tax also should be granted in respect of the properties which are exempted from the general property tax. In most States, the service taxes are payable even on properties exempt from the general tax. We recommend that this practice should be uniformly adopted in all the States.

The second problem is whether the rate of the service tax should be so fixed that it secures a yield covering the entire cost. According to the Local Finance Enquiry Committee it is neither desirable nor practicable to insist that services in respect of which service

taxes are collected should be exclusively financed from the receipts of the respective service taxes. Where a separate tax is levied in respect of a service, it is desirable to ensure that the receipts are normally adequate to cover a substantial part of the expenses if not the entire cost. However, there is no need to lay down any hard and fast rule; each municipality should be left to fix its own rate, under the general guidance of Government, after taking into consideration the expenses incurred on rendering the services.

Development of tax as stable and main source of municipal revenues

29. We consider that the tax on lands and buildings should effectively take its place as the main source of income of municipalities in all the States and that there should be less of reliance on the indirect octroi and terminal taxes than is the case at present in some States. This, no doubt, is likely to be a gradual process especially in Part B States, but in our opinion, every possible step should be taken to bring about this result.

We have recommended that this tax should be reserved for exclusive utilisation for or by the local bodies. We urge that, as far as practicable, it should be levied by all local bodies. One way of achieving this object would be for State Governments to prescribe in the enactments governing the municipal bodies this tax as a compulsorily leviable tax, at a minimum rate of, say, not less than three to six per cent. of the annual value (notwithstanding that a municipality might be raising sufficient revenues by other methods) the exact percentage being determined by the State Governments in the light of the circumstances in the State. Making the levy compulsory by statute would help the municipal authorities in imposing this tax, as, in that event, the responsibility for the tax will, in a sense, be transferred to the State Government. Another question that has to be considered is whether State Governments should fix a maximum rate. It is on the whole desirable to fix a maximum rate not for the purpose of preventing the local bodies from unduly exploiting the tax—there is hardly likely to be any such danger—but for avoiding the necessity of the municipal body obtaining the specific sanction of Government to every change in the rate of the tax. Hence, in respect of this tax, we recommend that maximum rates should be prescribed and the municipalities left free to determine the actual rate from time to time.

Acquisition of powers by State Governments to compel municipal bodies to levy property tax

30. The reluctance of municipalities to impose the property tax or to increase the rate of the tax to an adequate extent has prompted some State Governments to take statutory power to compel municipalities to levy the property tax (and in some cases any tax) at a rate which may be considered necessary by the State Government. The Governments of Madras, Andhra, Uttar Pradesh, Punjab and Madhya Bharat have now taken such powers. However, Madras appears to be the only State where the Government have, in fact, compulsorily raised the rate of property tax in the case of several municipalities. The Bombay Government have exhorted all municipalities to levy a consolidated tax on buildings and lands of not less than 20 per cent. of their annual value and has been endeavouring to enforce its instructions by withholding or curtailing its

grants to such municipalities as do not raise the rate of the tax adequately. Similar action, we recommend, may be taken by other State Governments.

31. As noticed in the previous chapter, two State Governments, *viz.*, Bombay and Punjab levy what is known as 'urban immovable property tax'—in effect a general property tax—and credit the proceeds to State revenues as distinguished from those of local bodies.

In Bombay, the tax is levied in the areas mentioned in the following table, at the rates shown against them:—

TABLE 2.—*The rates and levy of urban immovable property tax in Bombay State*

Area	Rate of tax on buildings and lands in areas specified in column 1, the annual letting value of which		
	(is less than Rs. 500)	(is between Rs. 500 and Rs. 2,000 both inclusive)	(is more than Rs. 2,000)
I. (1) The city of Bombay	Nil	2½ per cent.	5 per cent.
(2) The limits formerly included in the Municipal Boroughs of Bandra, Parle-Andheri, Ghatkopar Kiroi and Kurla			
(3) The limits formerly included in the municipal district of Juhu			
(4) The limits formerly included in the notified area of Chembur.			
II. The areas formerly included in the Poona City and Poona Suburban Municipal Boroughs and now forming part of the City of Poona	Nil	2 per cent.	4 per cent.
III. The areas formerly included in the Ahmedabad Municipal Borough and now forming part of the city of Ahmedabad.	Nil]	2½ per cent.	5 per cent.
IV. (1) The Thana Municipal Borough	Nil	3½ per cent.	7 per cent.
(2) The Malad, Kandivli and Borivli Notified Areas			
(3) The Mulund and Bhayandar villages in Thana District and Sabarmati village in Ahmedabad District			
(4) The Ahmedabad, Poona and Kirkee Cantonments			

In the Bombay State, the tax was first levied in 1939. The immediate occasion for its introduction was the loss of revenue incurred by the State Government as a result of the enforcement of prohibition in Bombay city and certain other areas. In Punjab, it is levied in 72 towns at a uniform rate of ten per cent.

In respect of the levy of the State tax—assessment, collection, etc., the position in Punjab is different from that in Bombay. In

Bombay, the valuation of the properties by the municipal authorities is accepted by the State Government and the tax is levied on the basis of the rateable value (annual value) fixed by the municipal authorities. Moreover, the collection of the tax itself is entrusted to the municipal authorities, as agents of the State Government. In Punjab, the State Government value the properties independently and collect the tax themselves; in fact, the State Government levy this tax more extensively and more intensively than do the local bodies. The State tax covers 72 local areas as against 40 areas covered by the corresponding local tax; and Government realise Rs. 40 lakhs from the tax as against Rs. 21.4 lakhs realised by the local bodies. Unlike in Bombay, where the urban immovable property tax is confined to the areas of the corporations and to certain municipal areas adjoining the city of Bombay, the Punjab tax is levied in almost all areas served by the municipalities and town committees.

It follows from the approach we have defined in another chapter and the general recommendation we have there made that, in our view, both Bombay and Punjab should hereafter follow, in respect of this tax, a policy which is based on the recognition that it pertains to the local sphere of revenue. The giving up of this tax by the two States immediately will, however, cause dislocation in their budgetary position.

32. We, therefore, recommend that the Governments should reduce their rate of tax as and when and to the extent that the municipal bodies concerned increase the rate of their tax (or, as the case may be—in Punjab levy it for the first time). The process may be spread over a period of five years, so that the transition may take place without serious dislocation to the budgets of the two States. At the end of five years, however, the State Governments concerned should cease to levy the tax. In the meanwhile, it is suggested that they should induce or compel the municipalities to levy it at rates which, from time to time, include the full rate given up by the State Government. These suggestions are a corollary to what we regard as one of our main propositions, *viz.*, that, as part of the evolution of a proper system of local taxation, the property tax should be developed for, and as far as possible by, local authorities.

33. As property forms the base for more than one tax, there is need for co-ordination between the various taxes levied by different authorities. One context in which this need arises is that of levy of income-tax on property-owners. We understand that the income-tax authorities generally accept the valuation made by the municipal authorities for purposes of income-tax. They are of course not bound to do so, and it is obvious that occasions for their making their own valuation will arise as long as numerous local authorities, some of them none too efficient, make their own individual arrangements for the assessment of rateable values. We recommend later in this chapter that the valuation of properties for the purpose of municipal taxation should be undertaken by independent State-wide agencies. When that is done, we recommend that the valuations so fixed for purposes of municipal property tax should, much more generally than at present, that is to say, almost invariably, be accepted by the Income-tax Department for purposes of levy of income-tax.

34. We have recommended that the levy of the property tax by State Governments should be gradually given up. Until that is done, there is need for co-ordination in the matter of assessment, etc., of the state and municipal taxes. In Bombay, as we have pointed out, such co-ordination already exists in that the municipalities as the agents of the State Government attend to both assessment and collection. We recommend that in Punjab, too, arrangements should be made to eliminate the duplication and harassment involved in two different authorities being engaged in the assessment of the same set of properties; wherever suitable, the State Government should accept the municipal assessments; and wherever necessary the arrangement may be the other way round, i.e., the State Department's valuation should be the basis of the municipal tax also.

35. There is also need to ensure that, as a result of the different taxes levied by different authorities, an undue burden in the aggregate is not placed on the property-owner. Since we envisage the elimination within a few years of the urban immovable property tax levied by State Governments, the residual problem in this context, will be that of co-ordination between the general property tax and the income-tax. Such co-ordination will consist in effecting the necessary adjustments in exemptions, concessions and deductions. In the computation of taxable income from property, certain deductions from the gross income are allowed by the income-tax authorities. One of these deductions is in respect of what the landlord recovers from his tenant as in effect the charges for municipal services enjoyed by the tenant. 'Service rates' as we have seen are sometimes distinct from the general rate, but sometimes wholly or partly merged therein. The present practice is for income-tax authorities to allow as the relevant deduction an amount not exceeding half the total municipal rate (general rate, together with service rates, if any). This is further limited to 12½ per cent. of the annual value. We consider that there is a case for eliminating this latter maximum, and we recommend that the deduction should hereafter be placed at half the total municipal rate, whether or not such amount exceeds 12½ per cent. of the annual value.

We also recommend that in consultation with the Ministry of Health, the Central Board of Revenue should examine whether the deductions permitted should not be raised.

36. We have recommended that property tax should be developed as the backbone of municipal finance. It will be the one stable tax available to municipal bodies. It is, therefore, necessary to encourage in every way its more intensive utilisation by municipalities.

37. The defective assessment of properties for the purposes of the property tax has been a subject of long standing complaint. Attention has been repeatedly drawn to the necessity for a radical improvement in the methods and machinery of assessment. Similar criticism is also directed to slackness in the collection of taxes. While our recommendations in regard to the general administrative set-up will, we are confident, help in improving the standard of collection of taxes, special measures seem to be necessary in respect of the assessment of properties. The evidence before us convinces us that, except in a few areas, there has been little or no improvement in this branch of municipal administration and that assessment is still very defective.

**Assessment and
collection of property
tax**

The Governments of West Bengal, Bihar and Travancore-Cochin have stated that there is under-valuation of properties for assessment to property tax in municipalities of their States. The Bombay Government have pointed out that the valuation of properties is out of date in several cases in the municipalities of the State. The Hyderabad Government have observed that local bodies in the State do not make proper assessments, and most of the other States have also pressed similar views.

At present the assessment work is done by the officers of a municipality, or in some States, by the councillors themselves. In a number of States, the State Governments lend the services of their officers for undertaking the periodical revision of assessment of properties. But quite often the officers whose services are so lent are deputed from the Revenue or other departments of Government and the deputed personnel have no particular training in or experience of assessment work. Hence assessment remains unsatisfactory notwithstanding that it is done by officers deputed by Government. Further as will be seen from Appendix F to this Volume, the assessments made by the officers of the Municipality or those deputed by Governments are at present subject to appeal to the elected body in most States. Quite often, any benefits derived from careful assessment are lost at the stage of appeal. In this context, then, the first requirement is an independent agency for assessing the value of properties; the second, that the officers constituting this agency should be specially trained for the efficient discharge of their highly technical duties; the third, that no revisional or appellate functions should be vested in municipal councillors. We have already in Chapter II dealt with these three aspects in the larger context of the reorganisation of municipal administration.

(2) Betterment taxes and contributions

38. In the context of municipal taxation, a 'betterment' tax or contribution is in effect a levy on the increase in urban land values caused by the execution of a town planning or town improvement scheme. The Calcutta and Nagpur Improvement Trusts, Town Improvement Trusts in Punjab, and local bodies in Madras, Andhra and Bombay have the power to levy betterment contributions under their town planning Acts. The tax has been levied by some of these authorities.

39. Certain difficulties have been encountered in the levy of betterment contributions under the Madras Town Planning Act, 1920. The Act permits the recovery, in a specified number of annual instalments, of betterment contributions upto 50 per cent. of the increase in value caused by the improvement schemes; at the same time, it does not specify the exact means of determining such increase in the value as may be attributable to the scheme alone. This has given rise, in specific instances, to the contention that the increases actually notified are not in their entirety attributable to the municipal scheme, that part of the rise in value is due to other causes, such as a general rise in price levels, and that to that extent an increase in value cannot be taxed under the Town Planning Act. For this reason, the Government of Madras propose to amend the Act so as to limit the total betterment contribution to the total outlay of capital on the improvement schemes concerned plus a small percentage to cover expenditure on the town planning

staff and contingent expenditure. In actual practice, the Corporation of Madras is now realising by way of betterment contribution only the total cost of the improvement schemes.

40. In Bombay also, the 'incremental contribution' (betterment charge) payable by the plot-owners under the **Levy in Bombay** provisions of the Town Planning Act is in effect limited to the expenditure incurred on the scheme.

In the city of Bombay, in addition, there is provision for the levy of betterment charges in respect of three kinds of schemes:—

- (a) improvement schemes;
- (b) clearance schemes; and
- (c) re-development schemes.

Originally an 'improvement scheme' consisted in the acquisition of all or most of the properties in a demarcated area and their re-sale by the corporation as ready-made building sites after the necessary improvements had been effected in the area as a whole. The corporation recouped part of the cost of the scheme in the form of the excess of realisations over outlay. The present position is that a betterment charge can be levied in respect of any plot in lieu of its being acquired outright by the corporation and then sold by it.

41. A 'clearance' scheme involves the wholesale demolition of all the buildings in a demarcated area except those buildings which are specifically exempted. The demolition is to be effected either by the owners of the buildings at their option or in the event of their failing to demolish the buildings, by the corporation itself after regular acquisition of the properties in question. The amount of compensation payable by the corporation is limited to the value of the land; i.e., no claim for payment is entertained in respect of the buildings marked out for demolition. As a result of the scheme as a whole, including the subsequent development of the area, there is a rise in land values. In relation of such increase, a betterment levy is permitted on certain classes of lands, *viz.*, those forming the sites of buildings exempted from demolition or demolished by their owners as well as those in the vicinity of the area thus 'cleared' by the demolition. On the lands which the corporation itself acquires in this process, there is of course no betterment tax; in place of it, there is the net gain which the corporation makes by selling the land at a higher price after the completion of clearance.

The features of a 're-development' scheme are more or less similar. Instead of demolition, however, the main process involved is that of re-construction of buildings.

The levy of betterment charges by local bodies in India is limited in two ways; the first legal and the second practical. Legally, the levy is limited to 'big schemes' (town planning, improvement, clearance or re-development as the case may be) and does not extend to more restricted improvements such as the building of an over-bridge or the providing of a park. In practice, the betterment levy is limited to the cost incurred on the scheme, though the relevant legal provision purports to cover all increase in value which results from the execution of the scheme (and which of course, in the aggregate, may well be greater than the total cost incurred).

42. While the extension of the betterment levy to smaller improvements may seem attractive, the practical impediments are many. It is difficult to lay down concrete principles either for demarcating the area benefited by such improvement or for determining the proportion in which different properties in that area have benefited. The procedure would in any case be complicated and, from the point of view of municipal revenue, the result might not be worthwhile. It may, in this context, also be pointed out that the provisions concerning betterment levy have become almost inoperative, so far as the smaller municipalities are concerned, on account of the cost, litigation and procedural complexities involved. In regard to such municipalities, we would stress the need for effective aid from the machinery of the State for putting through improvement schemes as well as for formulating and imposing betterment levies in connection with such schemes. As for betterment levy generally, we see no reason why, with reference to any area, it should in the aggregate be limited to the cost of the project. We recommend that these levies, while aiming as a minimum at recovering such cost, should as a maximum aim at recovering from the beneficiaries not less than 50 per cent. of the actual increase in value subsequent to the scheme. To the extent that legal problems may arise in view of the difficulty of establishing a strict connection between the increase in value as statistically computed and the concrete improvements resulting from the scheme, we recommend that the provisions of the relevant Acts should be so amended as not to make the levy contestable in law merely because the increase may in part be due to reasons unconnected with the project.

(3) Taxes on transfer of immovable property

43. A notable item of local taxation in Madras and Andhra is the levy of a duty on transfers of immovable properties; this levy by local bodies is in addition to the usual stamp duty which the State Government themselves impose on such transfers. Municipalities levy 5 per cent. and district local boards and village panchayats levy 4 per cent. on the value of the property transferred. These are the minimum rates they are obliged to levy under the relevant Acts. The corresponding stamp duty levied by the State Government is three per cent. The classes of transfers with which the local bodies are concerned are shown below, along with the basis of levy relevant to each class:—

Description of transfer	Amount on which duty should be levied
(i) Sale of immovable property . . .	The amount or value of the consideration for the sale, as set forth in the instrument.
(ii) Exchange of immovable property . . .	The value of the property of the greater value, as set forth in the instrument.
(iii) Gift of immovable property . . .	The value of the property as set forth in the instrument.
(iv) Mortgage with possession of immovable property	The amount secured by the mortgage, as set forth in the instrument.
(v) Lease in perpetuity of immovable property.	An amount equal to one-sixth of the whole amount or value of the rents which would be paid or delivered in respect of the first fifty years of the lease, as set forth in the instrument.

44. At first, the duty was not leviable on exchanges of immovable property. As this led to evasion—e.g., a small piece of land would be thrown in with the cash to make a transaction of sale and purchase appear one of exchange of properties—exchanges also were made liable to the duty in 1950.

45. When the deeds of transfers of immovable properties are brought for registration, the registration officer of the State Government sees that the deeds are written on stamp paper of the requisite value, taking into account the stamp duty due to the State Government and the additional duty due to the local body. The Registration Officer keeps an account of the stamp duty paid on account of each local body. The amount due to each local body is calculated and adjusted to its credit every quarter from the State funds, after deducting three per cent. of the proceeds on account of collection charges.

46. The income from the duty derived in 1952-53 by local bodies **Income from the duty** in the two States is shown below:—

Madras (residuary State)		Income in 1952-53 (In lakhs of Rupees.)
Madras Corporation	.	9.25
Mofussil Municipalities	.	15.86
District Boards	.	55.75
Class I Village Panchayats	.	10.87
Class II Village Panchayats	.	32.58
Andhra		
Municipalities	.	8.07
District Boards	.	15.44
Village Panchayats	.	N.A.

Several minor village panchayats in Madras derive more revenue from this duty than from any other tax.

47. In other States, this duty is not commonly levied. The levy exists in the Bangalore Municipal Corporation and a few municipalities in Mysore, the rate varying from one per cent. to two per cent. In 1952-53, the Bangalore Municipal Corporation and the Mysore City Municipality derived an income of Rs. 2 lakhs and Rs. 7,500 respectively from this source. In the city of Calcutta, the duty is levied at two per cent. The income from this duty which is Rs. 12 lakhs a year is however credited to the Calcutta City Improvement Trust. A duty at not more than two per cent. is levied also in the cities of Kanpur, Lucknow, Allahabad, Banaras and Agra in Uttar Pradesh in aid of the Improvement or Development Trusts of these cities. The Hyderabad Municipal and Town Committees Act, 1951, empowers Municipal and Town Committees in the State to levy a tax on transfers of immovable property with the sanction of the State Government. The PEPSU Panchayat Raj Act provides that village panchayats may, with the previous sanction of the State Government levy a tax on transfers of immovable property at a rate not exceeding two per cent. of the value of the properties.

48. For local bodies generally, and for urban bodies in particular, this is a very suitable item of taxation. The efforts of different sections of the local community, besides the amenities provided and the

programmes pursued by the local authorities, are often in no small measure responsible for the increase in value of sites and buildings in urban areas; and a duty on the transfer of such properties is an appropriate way of securing a share of the increase to local bodies. As in Madras and Andhra, the local tax can be collected along with the State's stamp duty without much cost to the local authorities. The revenue possibilities are not inappreciable. We recommend the levy of a duty of this kind by all municipalities and corporations. The Acts concerned should make the levy compulsory at a minimum rate of two per cent. The levy will, of course, be in addition to the stamp duty collected by the State. For other categories of local authorities, however, *viz.*, for village panchayats, district boards, notified area committees, etc., we recommend that the levy of the duty should be optional.

(4) Land cesses

49. Land cesses—also variously known as local fund cesses, local cesses and local rates—constitute the principal source of tax revenue of district local boards. The land cess is in the nature of a surcharge on land revenue and is usually collected by the State Governments along with land revenue and credited to the local boards. In most States, no deduction is made for collection charges. In Assam, Mysore, Hyderabad and Himachal Pradesh, however, collection charges are deducted before making over the receipts to the local boards. In West Bengal and Bihar, the cess is levied on the basis of the total annual rent payable for the land. In Mysore, land cess is leviable also on forest revenue.

50. Sometimes, out of the proceeds payable to the local boards, village panchayats get a share of the land cess attributable to the particular villages, while, in other instances, the panchayats have separate proportions fixed with direct reference to land revenue or are authorised to levy a distinct land cess of their own. The following are details for some of the States:—

TABLE 3.—Share of land cess granted to village panchayats in different States

Orissa	.	.	.	.	.	.	.	.	1/3
Madras	.	.	.	.	.	.	.	.	1/4
Andhra	.	.	.	.	.	.	.	.	1/4
Assam	.	.	.	.	.	.	.	.	Upto one anna in the rupee of land revenue.
Hyderabad	.	.	.	.	.	.	.	.	1/3
Madhya Bharat	.	.	.	.	.	.	.	.	1/3
Himachal Pradesh	.	.	.	.	.	.	.	.	There are no district boards in this State. Land cess at 25 per cent. of land revenue is being levied. Government propose to give the revenue from the cess to village panchayats after deducting collection charges.
Travancore-Cochin	.	.	.	.	.	.	.	.	Panchayats are allowed to levy land cess at 1½ pies for every 4 cents of land.
Bhopal	.	.	.	.	.	.	.	.	One anna in the rupee of land revenue.

51. In some States, a separate cess is levied for financing primary education or a definite proportion of the cess income is earmarked for expenditure on primary education. In PEPSU and Saurashtra no cess at all is levied. The income derived by local bodies from land cess has not risen appreciably because land revenue itself has been relatively static. To the extent, however, that rates have been increased in certain States, there has been an increase in the receipts from land cess. This is one of the factors to be taken into account as explaining the following figures:—

Name of State	Income from land cesses in 1946-47	Income from land cesses in the latest year for which figures are available (In lakhs of Rs.)
Bihar	85.1	145.2 (1950-51)
Bombay	61.7	105.4 (1952-53)
Madras (composite State)	182.5	276.0 (1952-53)
Orissa	6.5	16.1 (1951-52)
Punjab	25.8	63.4 (1951-52)

52. The abolition of zamindari is responsible for certain special features connected with land cess. In Madras, where land cess was based, in zamindari areas, on the rents payable to zamindars, a reduction in the receipts was implicit in the reduction of those rents to the levels of the ryotwari assessments of neighbouring areas. But the decrease has been more than offset by an increase in the rate of education cess. In Uttar Pradesh, consequent on the abolition of zamindaris, the cess is merged in land revenue and the district boards now get compensatory grants from Government in lieu of land cess.

53. The total annual income from land cess in all the States is Rs. 731 lakhs. Statistical Appendix 21 gives in detail the basis and rate of land cess, including education cess, for the several States. The figures in Statistical Appendix 22 relate to the annual income derived from this source in the several States, and the proportion which it bears to the total income of the boards from all sources.

54. Where land cess is levied on the basis of land revenue, the cess is definite and easily determinable, and in the States where this basis has been adopted the system has been working satisfactorily. We have already noticed the features which specially pertain to the former zamindari areas. It is only in the States of West Bengal and Bihar that land cess is levied on the basis of the annual rental value of the lands. This is independently calculated and has no direct relation to land revenue. In Bihar the annual value includes not only revenue or rent but also income from *hats*, bazaars, ferries, fairs and fisheries. In West Bengal, the annual value of lands is determined by either of the following methods:—

- (1) Taking the annual value as the total rent payable or, if no rent is actually payable, the rent which would, on a reasonable assessment, be payable by the cultivating ryots; or

- (2) Calculation of annual value on the basis of the 'acreage' rates fixed for each district with reference to the productivity of land in the area, price of agricultural produce during the preceding five years, the acreage rate not exceeding the value of 1/5 of the gross produce per acre.

These formulæ are obviously complicated; but the need for resorting to them will disappear with the completion of the process of abolition of zamindaris and the fixation of land revenue assessments directly payable to Government.

55. Land cesses themselves, at the present low levels at which they are levied, we regard as a feature to be replaced by more appreciable surcharges on land revenue. As explained in the section of the Report which deals with land revenue, we consider that such surcharges should be the exclusive province of local bodies and should not, except during a short period of transition, be any longer levied by State Governments.

56. A single cess, *i.e.*, one not made up of different earmarked cesses, is levied in the States of Punjab and Coorg. In Bombay State, fifteen pies out of a total levy of three annas are earmarked as a contribution towards the expenditure on primary education. In Hyderabad State, three pies out of a total levy of one anna are earmarked for education. Madras, Andhra, West Bengal and Mysore have each a separate cess for elementary education. In West Bengal, there is also a cess for public works. We consider that the balance of advantage rests with a single consolidated cess, and that individual earmarked cesses are justifiable only when the earmarking has the effect of reducing resistance to an intended increase in the total cess.

57. In Punjab, many district boards levy the cess at eight annas in the rupee of land revenue while in Madras and Andhra, most district boards levy it (inclusive of education cess) at five annas. Considered even as cesses, *i.e.*, apart from the more substantial surcharges we contemplate, the following rates in certain States are in our opinion inadequate and in some instances far too low:—

State	Total existing rates of cesses per rupee of land revenue or annual rental value
Assam	2 annas
Bihar	2 annas
West Bengal	2 1/4 annas
Travancore	1 1/2 pies for 4 cents
Mysore	2 annas
Hyderabad	One anna
Rajasthan	One anna
Madhya Bharat	2 pies

We recommend, as minimum land cess, a levy of three annas on every rupee of land revenue. We also recommend that States, which have not yet introduced a land cess, should do so now.

58. Land cess is usually collected by the Revenue Department of the State Governments along with land revenue.

Collection of land cess This system is generally satisfactory, though in certain zamindari areas (i.e., in Bihar and West Bengal) there are large arrears of land cess for the collection of which special efforts will need to be made. In certain States, e.g., Uttar Pradesh and Saurashtra, some village panchayats have been entrusted with the collection of land revenue as an experimental measure.

We endorse the practice which exists in most States today, viz., for the agency which collects the land revenue to collect also the land cess on behalf of the local bodies.



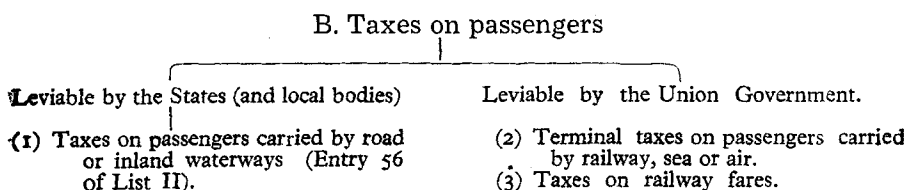
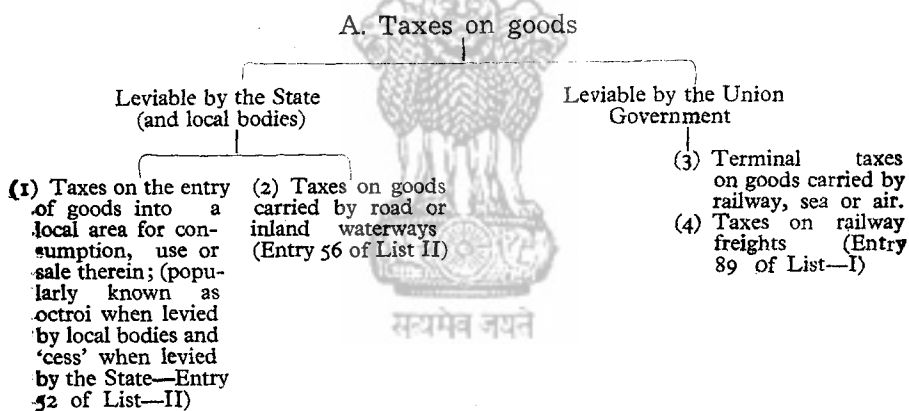
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CHAPTER IV OTHER LOCAL TAXES

1. Octroi and Terminal Taxes

Out of a total tax revenue of Rs. 42 crores for all municipalities and municipal corporations, an amount of Rs. 11 crores or 26.2 per cent. is accounted for by octroi and terminal taxes on goods. As will be seen from Statistical Appendices 23 to 26 the proceeds from these taxes constitute the largest item of receipts for the municipal bodies in Bombay, Madhya Pradesh, Punjab, Uttar Pradesh, Madhya Bharat, PEPSU, Rajasthan, Saurashtra, Delhi and Himachal Pradesh. Octroi, in particular, has assumed growing importance in recent years. The number of local bodies—including village panchayats—which levy it has been steadily on the increase. Also, more and more articles have tended to be included in octroi schedules, and the rates themselves stepped up from time to time.

2. Octroi and terminal taxes on goods and passengers are leviable by different authorities under Item 89 of the **Constitutional position** Union List and Items 52 and 56 of the State List. The Constitutional position may be thus indicated:—



3. It will be noticed that terminal taxes on goods (or passengers) carried by railway, sea or air can now be levied only by the Union Government; at the same time, the Constitution provides that the proceeds from taxation of this type shall be distributed to the States; further, such local bodies as were already levying such taxes when the Constitution came into

force can continue to levy them without, however, adding to the items or increasing the rates. From the point of view of States and local bodies, therefore, terminal taxes on goods and passengers carried by railway, sea or air are now a 'frozen' source of revenue: a fact which in part explains why municipalities have been more and more turning to octroi and why certain State Governments have been encouraging them to change over from terminal taxes to octroi duties. Thus in Punjab and Madhya Pradesh, for example, there is a marked movement towards octroi duties and away from terminal taxes. In Punjab, out of 94 municipal bodies, 72 levy octroi and 2 terminal tax; in Madhya Pradesh, out of 112 municipalities, 49 levy octroi and 26 terminal tax; in Uttar Pradesh, out of 120 municipalities, 47 levy octroi and 20 terminal taxes. The only important bodies which still rely on terminal taxes are the Delhi Municipality and some municipalities in Uttar Pradesh. Statistical Appendices 23 and 24 give the income of the municipalities from octroi and terminal taxes respectively.

4. Though the term 'octroi' is not used in the Constitution, the tax itself which goes by that name is covered by entry 52 of the State List which mentions "taxes on entry of goods into a local area for consumption, use or sale therein". Some of the States (e.g., Punjab and PEPSU) have now included either in the Municipal Acts or in the rules regarding the levy of octroi, a definition of octroi as a cess or tax on the entry into the municipal area of goods for consumption, use or sale therein. While, with reference to goods, octroi can be levied on only those which enter a specified area, terminal tax can apply to goods which leave the area as well as those which move into it. Further, while octroi is confined to goods, terminal tax extends to passengers as well. But the most important difference lies in the requirement peculiar to octroi that, for this tax to become leviable, the goods must not only enter the area, but must be "for the purpose of consumption, use or sale therein". Usually, this requirement is sought to be satisfied by (a) the *ab initio* exemption of the goods which merely pass through the area, whether the exit is immediate or after an interval, or (b) by the subsequent refund of the tax collected on such goods. Exemptions and refunds, therefore, are the distinguishing features of the octroi system.

5. Refunds are readily susceptible of abuse: an elastic system of refunds may result in municipal revenues being cheated by too free an admission of false claims, while a rigid system of refunds may result in delay and in harassment to the consignors and consignees of goods. In either case, of course, there is much scope for malpractices and corruption.

6. In this connection, the Punjab Government have evolved a system of "octroi without refunds" and, with certain modifications, this has been adopted by the PEPSU Government. One of the main problems which any system of octroi must set itself to solve, in respect of the articles covered by its schedule, is to distinguish between those which are, and those which are not, for local use, consumption or sale, since octroi is leviable on the former but not on the latter. In theory, the administrative arrangements for enforcing this distinction may operate at the point of entry (accompanied by exemption) or at a later stage (accompanied by refund) or at both initial and subsequent stages (involving exemptions where possible

and refunds where necessary). Also theoretically, a maximum of convenience and equity could be secured if all articles not meant for local use, etc. could at the very outset—i.e., at the point of entry—be readily demarcated from the rest and exempted forthwith, whether they are in the immediate transit through the area or are intended to be sent out after an interval. To the extent this can be done, exemptions can take the place of refunds; and in the event of its being possible to do this, without exception, for all articles which enter the area, exemptions can wholly replace refunds and the system becomes one of “octroi without refunds”. In actual practice, the administrative problem is that of making arrangements at the point of entry which are not only effective from the point of view of the municipality, but equitable from the point of view of the tax-payer. Arrangements which fulfil this two-fold requirement are particularly difficult to make in respect of goods which, according to purport, will remain in the area for some time and then go out. Sometimes, in an effort to reduce these difficulties, resort is had to the contestable legal fiction that where goods are not removed from the municipal area within a prescribed period they would be really for local consumption, sale or use. Where such goods are really intended for another destination, the system merely amounts, in the particular context, to levying a terminal tax in the guise of octroi. At the same time, in so far as the system is based on exempting beforehand goods which are in transit and levying the duty of octroi only on the other goods, it may be said that octroi without refunds is an improvement over the ordinary octroi, *viz.*, charging the duty on all goods and later giving a refund when applied for. It is clear that the improved method can be put to effective use only in those municipalities in which most of the goods entering the municipal limits are for local use or consumption; in other words, where the volume of goods in transit, immediately or after an interval, is small in comparison with the volume of goods for local use. It appears to us that in an appreciable number of instances in PEPSU, the tax that is collected is in substance a terminal tax, and only in name an octroi. Even so, to the extent that what is levied is a terminal tax on goods carried by road, the levy is quite constitutional; while, to the extent, if any, that it operates as a terminal tax on goods carried by railway or air, it is not of course, except as a Union tax, permissible under the Constitution.

7. Octroi and terminal taxes, as a form of levy by local bodies, have been the subject of much criticism from many quarters and at different times. In the last century as well as this, unsuccessful attempts were from time to time made to render these duties “as harmless as possible” by adopting various devices to localise their incidence and to rid them of their administrative defects. Some of these efforts were made by the Government of India. It was sought, firstly, to restrict the tax to a few articles of local consumption and secondly, to moderate the rate on necessities of life. A rule was at one time laid down that articles liable to customs duties and the property of Government should be exempt from taxation. To prevent octroi operating as a terminal tax at higher rates, the municipalities were required to provide warehouses and other conveniences for the storage of goods in transit. In 1877, Government prescribed a standard of yearly consumption of dutiable goods per head of municipal population by reference to which the excess of the amount paid as

octroi over the amount properly payable could be calculated, the excess being taken as the measure of the extent to which octroi had become a transit duty. All these devices achieved little that was tangible in the way of elimination of these duties from the scheme of local taxation. Octroi being considered the more abnoxious of the two taxes, substitution of the terminal tax for octroi was, for a time, considered a move in the right direction, and one which might ultimately lead to the effective elimination of indirect taxation by local bodies. This course was approved by the Government of India in their Resolutions of 1915 and 1917, but it was soon apparent that the substitution of the terminal tax for octroi was coming to be regarded as an end in itself and was by no means leading to the replacement of both by forms of direct taxation. After the Reforms leading to 'dyarchy', the Government of India could no longer exercise control over the levy of octroi and terminal taxes by local bodies. Its subsequent interest was mainly in the prevention of undue exploitation of terminal taxes, not so much of octroi, this was because terminal taxes were largely collected through the agency of the railways and it was feared that a stage might be reached when the levy of these taxes would have an adverse effect on the earnings of Railways. Eventually, as we have seen, terminal taxes on goods and passengers other than those carried by road and inland waterways have been transferred from the States' sphere of taxation to that of the Union. This came to be effected in two stages: in so far as the taxes pertain to rail-borne or sea-borne goods and passengers, the relevant power was transferred to the Central sphere under the Government of India Act of 1935; and, when the Constitution was passed, the particular entry in the Union List was enlarged to include also the goods and passengers carried by air. The Local Finance Enquiry Committee has recommended that terminal taxes should be transferred to the State List to enable them completely to eliminate octroi and to replace it by terminal taxes. "We would urge on the Government of India" says the Committee "to reconsider the position and arrange to transfer this entry back again to the State List. It seems to us that the object which the Government of India apparently had in view in centralising terminal taxes, viz., to prevent the imposition of abnoxious levies on trade and commerce is being defeated and in place of a lighter burden is being substituted a heavier burden in the shape of octroi".

8. The desirability of substituting terminal taxes on goods for octroi has therefore to be examined in some detail both generally and from the specific points of view of the taxing authority, the taxpayer and the consumer. As a tax with a 'local base', octroi is a more suitable item of local taxation than terminal tax; more explicitly, while octroi is payable only on goods which are used, sold or consumed within the local area, the terminal tax can be levied also on goods whose destination and consumption are outside the local area. It does in fact happen that terminal tax is extended to goods which are merely in transit, i.e., are not even temporarily detained in the area of the taxing authority; and to the extent that several authorities may thus tax the goods in transit, a tax of this kind is undoubtedly open to special objection. While this problem has not arisen for rail-borne goods because local bodies have not attempted to tax goods which merely pass through their stations, it does frequently arise in the case of goods in transit by road. From the point of view of the

taxing authority (the municipality), the terminal tax has the virtue of being simpler to administer than octroi. It is true that either tax involves the maintenance of road barriers, and the arming of petty officers with relatively wide powers. It is the absence of refunds that makes the terminal tax more attractive, administratively and financially, to municipalities. Special administrative arrangements and a somewhat complicated procedure are inseparable from a system of refunds; and since the amounts to be refunded (which are sometimes large) can only be determined after investigation of claims, an element of uncertainty about the final revenue is often a feature of the operation of the system. Moreover, refunds offer larger scope for corruption. For the taxpayer (usually the trader), the terminal tax has one advantage, *viz.*, that there is no need to make large tentative payments initially and then, after varying intervals, get the payments refunded. In all other respects, the liability and harassment are more or less the same. The exact effect on the consumer is difficult to evaluate but, for him both octroi and terminal taxes represent roughly the same burden. If goods in transit have to pay terminal taxes at half a dozen places, the total burden is sizeable and is reflected in higher prices. Likewise, the cost involved in obtaining refunds at half a dozen places on the route affects the prices which the consumer pays. In this respect, however, the development of a system of exemptions, replacing the refunds, however, tilts the balance in favour of octroi.

9. Since from the point of view of the two principal parties concerned, *viz.*, the taxing authority and the taxpayer, the terminal tax has significant advantages, most State Governments are in favour of octroi being replaced by terminal taxes. If this is to be done, it is obvious that goods carried by rail cannot be discriminated against, *i.e.*, terminal taxes cannot be levied only in respect of rail-borne goods; but corresponding taxes must be levied in respect of goods carried by road also. The levy of terminal tax can always be efficiently organised in respect of goods transported by rail; but that is no solution by itself, for an essential requirement is the complementary enforcement of a not less efficient system of levy on the parallel transport of goods by road. This requirement is not likely to be fulfilled until the road transport of goods is much more effectively brought under public or semi-public control—possibly even State and municipal ownership—than is the case at present. For several years to come, therefore, it would appear that the rail-road integration needed for a proper system of terminal tax can be achieved only in a few restricted areas. Thus, a town which happens to be accessible almost exclusively by rail, or one in which goods transport by road is the monopoly of the State Government, the municipality or a co-operative organisation, might be well suited for levying a terminal tax. Such towns, however, would be very few in number. Each case would have to be dealt with on its merits. We recommend that the Government of India should consider favourably the levy of a terminal tax on goods under the entry in the Union List, in all municipal areas in which it can suitably be levied, an important criterion of suitability being the existence of features which make it possible to impose and enforce, under the entry in the State List, a parallel levy on goods transported by road. For practical reasons, it is necessary that the Union should have an effective voice in deciding whether such circumstances do exist in an individual case. We

express the hope that the Central authorities concerned will adopt a sufficiently responsive attitude in this matter and in suitable cases, readily co-operate with the local authorities by imposing a terminal tax on rail-borne (also sea-borne and air-borne) goods to supplement a similar tax on goods carried by road. The proceeds of the Union tax should be made over to the municipality concerned. It follows that, in our view, the relevant entry—"terminal taxes on goods carried by rail, sea or air"—should remain in the Union List. The reason, as we have indicated, is that the final decision in regard to the suitability of this levy in any individual case must rest with the Union.

10. We are aware that while our view is that octroi is unsatisfactory, our recommendation will leave local bodies free to continue the levy of this tax. Unfortunately, on any except a long-range view of the situation, it is not practicable to envisage the wholesale abolition of octroi. It is obvious that, unless adequate alternative resources are developed by or for the local bodies, such a course will have extremely adverse effects on several municipalities and municipal corporations. Property tax can undoubtedly be developed much further in certain States; indeed it remains to be introduced in States like PEPSU, Rajasthan and Saurashtra, while there is considerable scope for extending it and increasing its rates in Uttar Pradesh, Punjab, etc. The fact has nevertheless to be faced that, in some of these areas, the process is likely to be gradual, though we trust it will not be unduly slow. Moreover, apart from the consideration that, in all these cases, the levy of property tax can perhaps validly be regarded as a means of securing much needed additional revenue, the prospect of the receipts from this levy equalling or nearly equalling the present proceeds from octroi may be said to be rather remote. Briefly, either now or in the immediate future, it is impossible to conceive of alternative sources of local taxation which will give the eleven crores odd of revenue which octroi today provides. The elimination of octroi from the tax system of local bodies should undoubtedly be aimed at; but it has inevitably to be a long-term aim. To explain why this must be so, we may consider what would seem to be the two logical directions in which octroi can, without much sacrifice of revenue, be transformed into a better form of taxation on a country-wide scale: (i) its conversion into a terminal tax operated not necessarily by each municipality, but for a number of municipalities comprised in a convenient regional unit, and levied through the agency of the combined transport system (road, rail, etc.) when that is better organised and co-ordinated, and (ii) its conversion into a surcharge on sales tax when the sales tax system itself is well established and efficiently administered in the generality of States. For the reasons we have already indicated, the first of these as a possibility, may be relegated to the distant future. The second, though not quite as remote a possibility, is also in the nature of a long-term solution. A municipal surcharge on sales tax is in essence the levy by the State Government of a higher rate of sales tax on certain goods (e.g., foodgrains which figure in most octroi schedules) sold to residents of particular municipal areas, and the distribution to the municipalities concerned of the additional receipts thus derived. In most States, such a development is now precluded if only by the consideration that the sales tax administrations are not capable of shouldering additional responsibilities of the complicated nature

involved in the proposal. Attention meanwhile has therefore to be confined to eliminating the more palpable evils of the octroi system.

11. Since some of the features connected with "refunds" constitute one of the chief drawbacks of octroi, it is obviously desirable that the system itself should be so designed as to curtail the occasions for refund to a minimum, if not eliminated altogether. But that throws a corresponding obligation on the municipality to ensure that what in effect is a terminal tax is not collected either (i) at the point of entry on goods in transit or (ii) either then or at a subsequent stage on goods intended to be despatched elsewhere after temporary retention in the area. For its fulfilment, the first of these requirements is largely dependent on good staff and efficient supervision. The second may well involve bonded warehouses in the bigger municipalities and analogous, but simpler, arrangements in the smaller ones. Moreover the legal fiction should not be created that goods which stay in the area for more than a very short period are really goods for local use or consumption. With such modifications as may be necessary in the light of the foregoing considerations, the Punjab system of octroi without refunds may be said to provide the basis for a workable solution. Further, in regard to octroi generally we suggest that the following reforms should be introduced in the system of levy:—

- (1) Octroi should ordinarily be levied on the basis of weight and not *ad valorem* since the latter adds to delay and harassment.
- (2) A model schedule should be prescribed by State Governments in all the States. This schedule should omit articles which involve undue harassment to small vendors (e.g., of vegetables, milk, etc.).
- (3) The collection of octroi should not, as it at present is in many municipalities, be virtually left in the hands of the subordinate staff but should be supervised frequently and effectively by the higher executives with a view to checking corruption and preventing harassment.
- (4) Increases in existing rates of octroi on articles of food should not, save in the most exceptional circumstances, be permitted by State Governments; this follows from the considerations firstly, that octroi should be regarded as a diminishing, and not increasing, source of revenue; and secondly, that articles of food would under the multi-point sales tax system suggested by us, be subject to sales tax levies, and an increase in the rates of the octroi, if any, levied on them would add unduly to the tax burden on consumers of small means. This is specially essential in view of the fact that at present nearly 50 per cent. of the revenue from octroi is derived from articles of food. (Statistical Appendices 27 and 28 may be seen as instancing the cases of Amritsar and Patiala municipalities).
- (5) The introduction of terminal tax or switch over from octroi to terminal tax may be permitted in cases of the type we have earlier mentioned. This, of course, will have to be done in co-ordination with the Railway Board.

12. One of the varieties of terminal tax is that levied on passengers to pilgrim centres. This is popularly known as 'pilgrim tax' and is levied in a number of pilgrim centres all over the country. In some places, e.g., Puri and Gaya, the proceeds are credited, not to municipal committees, but to *ad hoc* bodies like lodging house committees. These taxes are for the most part levied on railway passengers and were in existence prior to the transfer of the relevant tax power to the Central Government under the Government of India Act, 1935. There appears to be only one case of the levying of this tax after its transfer from the State List, *viz.*, at the time of the recent Kumbha Mela at Allahabad.

13. A terminal tax on passengers may, of course, be levied also at places other than pilgrim centres. Of such a tax, however, there would appear to be only one instance, *viz.*, that on passengers bound for Calcutta (including Howrah). The tax is levied under the provisions of the Calcutta Improvement Trust Act and the proceeds are credited to the Trust funds.

14. A demand has been put forward on behalf of local bodies and supported by State Governments that pilgrim taxes should be extended to places of pilgrimage generally and in particular to all such centres of pilgrimage as are called upon to provide various civic amenities to large visiting populations. We support the proposal. On pilgrims arriving by rail, the levy has to take the form of a terminal tax under entry No. 89 of the Union List. At the same time, of course, a parallel tax has to be levied by the State Governments on passengers making use of road transport. There are many pilgrim centres of relative importance to which the tax could be extended on these lines. We recommend that the Railway Board take suitable measures to levy a terminal tax in such cases on the recommendation of the State Governments. The tax may be levied for part of the year or all the year round according as pilgrimage to the place is during certain seasons or throughout the year.

15. We also consider that a terminal tax at a low rate on long-distance passengers—the limit might be, say, 150 miles—is a suitable way of obtaining for the municipalities concerned some contribution from the visiting population which makes use of the amenities provided. Such a tax would of course have to cover all the main forms of transport and would therefore have to be levied under a concerted scheme, by the State on passengers travelling by road (particularly by bus or car) and by the Union on rail-borne and other passengers. We recommend that, for the benefit of the municipalities concerned, a co-ordinated terminal tax of this type should be levied in cities with a population of over five lakhs.

2. Tax on Professions, Trades, Callings and Employments; and Tax on Circumstances and Property

16. The profession tax figures in entry No. 60 of the State List :
 "taxes on professions, trades, callings and employments". Article 276 of the Constitution provides that its levy shall not be invalid on the ground that it relates to a tax on income. The maximum amount that can be levied on any one person by any State or local authority

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is Rs. 250 per annum. Levies above this limit are protected by a saving clause, provided they were in force immediately before the commencement of the Constitution.

Previous limitations on the levy of the tax 17. No such limit existed under the Government of India Act, 1919. It was open to the Provincial Legislatures to fix maxima in their discretion. In the then Province of Madras, for example, a limit of Rs. 1,000 was fixed for the city of Madras and of Rs. 550 for the district municipalities. In Bengal, the Calcutta Municipal Corporation could levy upto Rs. 500 and the mofussil municipalities upto Rs. 400.

18. Nor did the Government of India Act of 1935, as first enacted, contain a maximum for the profession tax. The restriction came later when the Act was amended in 1939. Section 142A, which was then inserted, laid down that no new levy should exceed Rs. 50, and that levies already in force should be subject to such higher maxima, if any, as a law of the Central Legislature might provide. Two years later, the Indian Legislature passed 'The Profession Tax Limitation Act, 1941' under which, except in Bengal, the United Provinces and the Central Provinces and Berar, even existing levies were restricted to Rs. 50 per person per annum. This adversely affected the revenues of the local authorities in the Province of Madras which, in many cases, were compelled to effect a drastic reduction in the rates of profession tax. In order to prevent the undue dislocation of their budgets, the Madras Government found itself compelled to make *ex gratia* payments of the order of Rs. 12 lakhs per annum to such local bodies. Under the Constitution of India, as stated above, the limit has been increased to Rs. 250 per annum. By virtue of the saving provision which has been referred to, certain profession taxes already in force continue to be levied at more than Rs. 250 by local bodies in West Bengal and Travancore-Cochin, by the Madras Corporation in the case of taxes on companies and by the district boards in Uttar Pradesh in the context of the tax on circumstances and property.

Extent of levy 19. The instances in which the profession tax is a significant source of revenue are relatively few; in respect of district boards, these are confined to the Punjab, and in respect of municipalities largely to Madras, Andhra, West Bengal, Hyderabad and Travancore-Cochin. Progressive scale of levy is a feature of the tax in Madras, Andhra, Punjab and Travancore-Cochin. The assessee are divided into a number of classes on the basis of income and a maximum is fixed for the tax leviable on each class. In other States, e.g., West Bengal, it is usually levied at a flat rate prescribed separately for each profession or for a few grades separately in each profession.

Tax on circumstances and property 20. In Madhya Pradesh, Uttar Pradesh and Bihar, what is known as a 'tax on circumstances and property' is levied by a few local bodies. As the name implies, this is a combination of the property tax and the profession tax. Judicial pronouncements have made it clear that this composite tax is subject to the same maximum as is applicable to profession tax. There is, therefore, a tendency to substitute separate taxes on property and profession for this composite tax. Thus, in

Orissa, where a few municipalities used to levy the tax on circumstances and property before 1950, this tax has been abolished and replaced by the levy of a profession tax and a 'tax on holdings' (i.e., property tax).

Statistical Appendix 29 gives for the local bodies of different States, the annual income from the profession tax and the percentage this bears to the total income from all taxes. For all States together, the total revenue from this source is a little over Rs. 1 crore.

21. In Assam, the profession tax is in effect reserved by the State Government for itself, and no local body has been allowed to levy the tax. The State levy is on persons with annual incomes of over Rs. 3,500. The maximum rate is Rs. 50 and the annual income for the State is Rs. 3 lakhs.

The Madhya Pradesh Government provides the only other instance of a State Government levying the profession tax; but there are a few municipalities which also levy the tax in this State. The State tax applies to all income-tax assesseees, but to them alone; the rate is Rs. 50 where the income exceeds Rs. 10,000 and Rs. 28 in other cases. The revenue for the State Government was Rs. 4.27 lakhs in 1952-53.

22. Basic to the levy of the profession tax is a classification of the assesseees according to profession or income or both. The practice differs in different States. In West Bengal, the emphasis is on classification according to profession. Within each profession there is provision for a certain degree of gradation, e.g., income-tax assesseees and others; sometimes the gradation is based on rough criteria related to earning capacity. Flat rates of levy are adopted for the different grades of assesseees within each profession; and for different groups of professions, different maxima are prescribed. In Madras, Andhra and Travancore-Cochin, the classification is according to income, different maxima being prescribed for different slabs of income, irrespective of the profession. In Punjab, the classification takes special cognizance of certain professions but is otherwise based on income as the main criterion. In respect of the listed professions (almost all of them carried on by harijans and scheduled classes) a low flat rate is adopted. In respect of all other professions, the rates are related to different slabs of income, irrespective of the nature of the profession. Details of the basis of levy, rates, etc., are given in Statistical Appendix G for the six States in which appreciable income is derived from the profession tax.

23. We have already indicated that the profession tax should be included among those sources of revenue which should be reserved for the benefit of the local bodies. It follows that we recommend that the Governments of Assam and Madhya Pradesh should either transfer the levy of the tax to the local bodies or, for such time as they continue to collect it themselves, should hand over the proceeds to the particular local authorities concerned. The aim should be to transfer the tax levy itself in as short a period as possible. As regards the foregoing of the

revenue in favour of the local bodies, we recognise that even here a short period of transition may be necessary in the solitary instance of Assam, so that the State budget may without undue dislocation be adjusted to this new requirement; but even so, we do not think the process will need more than two or three years for its completion. We also recommend that the relevant enactments and rules should, in all States, be suitably amended so as to permit of the adequate utilisation of this tax by the local bodies.

24. The tax may be suitably levied, not only by all municipal corporations, but also by other municipalities, by town committees and by village panchayats. The position is different in respect of district boards. These have jurisdiction over relatively large areas, and as the number of persons liable to the tax would in relation to the area be so small as to render the cost of collection disproportionate to the revenue, we consider that, as a rule, district boards need not be permitted to levy this tax. For village panchayats, the levy should ordinarily be optional; for municipal corporations and municipalities, however, it should be compulsory, at suitable minimum rates to be prescribed by the State Governments.

Raising the limit of profession tax

25. The Local Finance Enquiry Committee recommended that the limit for profession tax should be increased to Rs. 1,000 per person per annum. We agree that the limit of Rs. 250 is low. This is adduced as one of the reasons why some local bodies like the Bombay Municipal Corporation are reluctant to levy the tax. We consider, however, that raising the limit to Rs. 500 would be adequate. At the same time, of course, the scale of levy will have to be such that an undue burden is not placed on those in certain income brackets.

Our suggestion in regard to the raising of the present maximum will necessitate an amendment of the Constitution. We recommend that Article 276 of the Constitution should be amended to provide that the profession tax shall be subject to a maximum limit of Rs. 500 instead of Rs. 250 as at present.

Basis of levy of profession tax

26. Incomes vary within a very wide range in the same profession; this is especially true of municipal areas, as distinguished from those of village panchayats. A flat rate for each of two or three gradations in each profession is, therefore, unsuitable in such cases. There has to be a somewhat more numerous gradations according to income, and the emphasis itself should be on the classification according to income rather than on the detailed grouping of professions. From this point of view, we consider that the basis adopted in Madras and Andhra, for example, is more appropriate than that which obtains in West Bengal. The levy of the tax on the basis of income is quite legal in view of the provisions of article 276, and we suggest its adoption by all States. The assessee may be divided into a few classes on the basis of income and the maximum tax payable by each class may be fixed on a progressive scale by the State Governments. Income from profession, trades, employments, pension and income from investments may be assessed to the tax. We notice that in West Bengal, the profession tax is not permitted to be levied on 'employments'; we suggest that the scope of the tax in that State should be widened so as to include these.

Agricultural income is usually exempted from the profession tax. The only exception is Punjab, but even there all persons are exempted who are solely dependent on agriculture for their livelihood. We are of the view that agricultural income should continue to be exempted from profession tax.

27. We agree with the recommendation of the Local Finance Enquiry Committee that local bodies should not be empowered to call for the accounts of assesseees. They should only call for a return of income from persons who appear to be liable to the tax. In the case of a person or company transacting business solely in a local area and producing before the local authority his income-tax assessment order for a year, the local body should fix the assessment to profession tax for that year on the basis of the income computed for determining the income-tax.

28. In the case of the Municipal Corporations of Calcutta and Bombay, it would be desirable if the assessment and collection of profession tax can be done by the Income-tax Department on behalf of the Municipal Corporations. (To facilitate, the exemption limit in respect of profession tax could be fixed at the same figure as for income-tax). We recommend examination of the feasibility of this suggestion. If the Income-tax Department cannot take over the work of assessment and collection of profession tax, every possible help should be rendered by the Department by supplying to the Municipal Corporations concerned lists of persons liable to income-tax.

3. Tax on Vehicles, Animals and Boats

29. The tax on vehicles is a feature of municipal taxation common to most States. A signal exception is provided by Travancore-Cochin where no local body is now permitted to levy a tax on any type of vehicle, the power being reserved for the State Government itself. In Bombay and Hyderabad, the municipal tax on vehicles extends to motor vehicles as well, and is in addition to the tax levied by State Governments. Elsewhere, there is only a State tax on motor vehicles. So far as village panchayats are concerned, a tax on carts in Mysore and one on carts and bicycles in Madras are among the items of levy which it is obligatory for the panchayats to impose. Similar taxes are levied in most other States, but usually at the option of the panchayats. District boards in Bihar have been recently empowered to levy a tax on bullock carts other than carts used for agricultural purposes in rural areas. In almost all these cases, the maximum rates of levy are laid down in the relevant Acts or in the rules framed thereunder by the State Governments. A tax on boats is levied in a few States, e.g., by municipalities in Bombay, Uttar Pradesh, Mysore and Saurashtra. In Assam, West Bengal, Bihar, Madhya Pradesh and Orissa, fees are leviable by municipalities on boats mooring within the municipal limits or at ghats and landing places provided by the municipality. In Assam, village panchayats may levy a tax on boats at a rate not exceeding Rs. 6 per boat per annum.

30. The annual revenue derived by all municipal corporations and municipalities from the tax on vehicles and allied taxes is Rs. 109 lakhs. The income is insignificant except in the State of Bombay, where the tax is levied on motor vehicles also. On an average, the income from this tax represents only 2.8 per cent. of the total income of the municipalities and municipal corporations from all taxes. The following table gives the position in the various States:—

TABLE 4.—*Income of municipalities (including municipal corporations) in the several States from the taxes on vehicles, animals and boats.*

State	Latest year for which the figures are available	Income in the year mentioned in Col. 2 (in lakhs of Rs.)	Percentage of income to the total income from tax revenue
<i>Part A</i>			
Assam	1950-51	0.45	2.9
Bihar	1949-50	0.79	1.5
Bombay	1952-53	63.80	4.2
Madhya Pradesh (municipal corporations only).	1952-53	2.12	2.1
Madhya Pradesh (other municipalities).	1951-52	1.80	1.2
Madras (combined State)	1951-52	12.53	2.2
Orissa	1951-52	0.53	4.5
Punjab	1951-52	1.73	1.2
Uttar Pradesh	1949-50	5.34	1.5
West Bengal	1948-49	7.20	1.8
<i>Part B</i>			
Hyderabad	1952-53	6.05	6.1
Madhya Bharat	1952-53	2.22	3.5
Mysore (Bangalore Corporation only).	1952-53	3.23	4.5
Saurashtra	1951-52	0.45	0.4
Travancore-Cochin	1951-52	0.19	0.6
<i>Part C</i>			
Bhopal	1951-52	0.37	4.1
Coorg	1951-52	0.01	0.4
Himachal Pradesh	1952-53	0.04	0.6
TOTAL .		108.85	2.8

31. With the exception of Orissa, all State Governments pay a compensation to the local bodies for loss of revenue consequent on the withdrawal of the power to tax motor vehicles. The compensation is usually based on the average revenue of the three years preceding the withdrawal of the power. It is therefore a fixed amount related to conditions long since past. There have been persistent demands for raising the compensation from time to time in some correspondence with factors such as (a) the growing expenditure on roads which municipalities have to incur, (b) the increasing number of motor vehicles registered in the areas of the municipalities and (c) the expanding revenues which the State Governments themselves derive from the motor vehicles tax. We have elsewhere (in the chapter on the Motor Vehicles Tax) recommended that, in replacement of the present basis of compensation, municipalities (other than municipal corporations) and district boards should in all States be paid a share of the proceeds from the motor vehicles tax. So far as the municipal corporations are concerned, we have recommended that they should be allowed to introduce, or to continue to levy, individual wheel taxes. We have further suggested that, while the municipal wheel tax in such cases will be in addition to the State Government's own levy of the motor vehicles tax, the rates of the latter tax should be suitably reduced in the areas of the corporations concerned.

32. It follows from our recommendation that taxes on vehicles, other than motor vehicles, should with certain other items be reserved for the benefit of local bodies, and that State Governments, in our view, should pursue the policy of delegating adequate powers in this respect to the local bodies of the State. It also follows—and this part of our observations applies in particular to Travancore-Cochin—that State Governments should not, save for exceptional reasons and during a transitional period, levy this tax themselves, and that, where they do happen to levy it, the proceeds should be made over to the local bodies.

4. Theatre Tax

33. In certain States, in addition to the entertainments tax levied on admissions to places of entertainment, a theatre or show tax is levied at a flat rate for each show or performance. Both these taxes are leviable under item 62—"Taxes on luxuries, including taxes on entertainments, amusements, etc." in the State List.

In Bombay State, municipal corporations, municipalities and some panchayats levy the theatre tax at specified rates for each show or performance, while the entertainments tax is levied by the Government. In Saurashtra also, municipalities levy the theatre tax at specified rates for each show or performance. In Hyderabad State, the theatre tax is levied by the State Government while the entertainments tax on admissions is levied by local bodies. In Madras and Andhra, both the entertainments tax and the theatre tax are levied by the State Governments, but 90 per cent. of the receipts from the former are made over to the local authorities. In PEPSU also, a theatre tax is levied in addition to the entertainments tax by the State Government. The theatre or show tax is not yet levied in other States.

34. While the rates are specific and flat, a certain amount of graduation is achieved by a classification of the theatres or shows and fixation of differential rates to reflect, to a limited extent, the ability to pay. Thus in the city of Bombay, theatres or performances are classified and different rates are fixed as under:

Type of entertainment	Amount of tax
Class I Cinema Theatre	Rs. 10 per show.
Class II Cinema Theatre	Rs. 7 per show.
Drama, concert, variety entertainment or <i>tamasha</i>	Rs. 7 per show.
Circus, Carnival or Fete	Rs. 10 per day.
Any other entertainment	Rs. 7 per show or if there are not separate shows Rs. 7 per day.

The rates are lower in mofussil municipalities and range from about Rs. 2 per show. In 1952-53, the income of the Bombay Municipal Corporation from this tax was Rs. 8.39 lakhs while the total income of the municipalities in the Bombay State including the corporations, was Rs. 16.37 lakhs.

In Madras and Andhra, the rates are:—

	Rate of show tax		
	Rs.	A.	P.
(i) Exhibitions held in the City of Madras	2	8	0 for every show.
(ii) Exhibitions held in municipalities notified in this behalf by the Government	2	0	0 „
(iii) Exhibitions held in other municipalities	1	8	0 „
(iv) (a) Exhibitions held elsewhere in permanent cinema houses	1	8	0 „
(b) Exhibitions held with cinematograph apparatus and plant taken from place to place in panchayat areas with a population of not less than 10,000 at the last census	1	0	0 „

The annual income of the residuary Madras State from this source is Rs. 4 lakhs.

35. The incidence of the theatre tax falls primarily on the owners of the theatres (or the organisers of the shows), while the entertainments tax on admissions to places of entertainment is borne by those attending the performances. We are of the opinion that it would not be valid to regard the theatre or show tax as unjustifiable merely on the ground that an entertainment tax is at the same time levied. We have already made certain recommendations for rendering the

entertainments tax more adaptable to the needs of the cinema industry without involving an appreciable sacrifice of public revenues. So long as the rates of the theatre tax are reasonably low, we consider there is legitimate scope for the levy of both the taxes. We recommend the extension of the theatre tax to municipalities and municipal corporations in all States. The local authorities concerned may be empowered to levy the tax at a flat rate for each show or performance. In addition, municipal corporations should be empowered to classify the theatres into two or three categories and to fix different rates for each class of theatre. The State Governments should themselves classify the municipalities into categories (based on the population, etc.) and fix different maxima for the rates of the theatre or show tax. It is necessary, as we have pointed out, that the rates should not be pitched unduly high.

5. Tolls

36. Tolls on vehicles and animals have been abolished in most progressive countries as their levy at different points inconveniences traffic and is a very great impediment to fast moving traffic. In India, most States have abolished local tolls and have been paying annual compensation from the proceeds of the State tax on motor vehicles to local bodies for loss of income from tolls. Tolls are now levied by almost all the municipalities in the States of Hyderabad, Mysore, Assam, Ajmer and Punjab, by 48 municipalities in Uttar Pradesh, 43 municipalities in Madhya Pradesh, and a few municipalities in Bombay. The following table shows the annual municipal income from this source in some of these States:—

TABLE 5.—Income from tolls.

State	Latest year for which figures are available	Income from tolls in the year (in lakhs of Rupees)
Hyderabad (including the municipal corporations in the State)	1952-53	10.69
Assam	1949-50	0.06
Punjab	1951-52	1.28
Uttar Pradesh	1949-50	32.43
Madhya Pradesh	1951-52	3.46

In a few States, e.g., Bihar, tolls are levied on certain new bridges in order to recoup the capital expenditure incurred on their construction. In Mysore, the State Government levies tolls on all motor vehicles at frontier toll gates and at bridge toll gates. In Bombay, Madhya Pradesh, Hyderabad and Saurashtra, village panchayats are empowered to levy tolls on vehicles and animals.

37. With one reservation, we recommend the abolition of tolls wherever that has not been effected. The exception relates to new bridges casting over, say, Rs. 5 lakhs. In respect of these, tolls may be permitted for a period, but in no case after

the cost of construction has been recouped. The loss of revenue which abolition of tolls will entail on certain municipalities, etc. will, we believe, be adequately made up if the State Governments bring into force the arrangements we have suggested in regard to payments to local bodies out of the proceeds of the motor vehicle tax. In considering whether the rates of this tax should be revised, the State Government will no doubt take into account the extent of the revenue foregone as a result of the abolition of tolls.

6. Tax on Advertisements, other than Advertisements published in Newspapers

38. Among the items of taxation which we have recommended should be regarded as within the exclusive province of local bodies is that which is covered by Entry No. 55 of the State List, viz., the tax on advertisements other than those published in newspapers. Hoardings, posters, sky-signs, etc. are the types of advertisements on which taxes or fees can thus be imposed. Levies of this kind exist in Madras, Calcutta and Bombay.

39. In the city of Madras, the Madras Corporation levies the tax under section 129A of the Madras City Municipal Act, 1919, on advertisements "erected, exhibited, fixed, retained or displayed to public view in any place, whether public or private". Certain classes of advertisements (such as name boards) specified in the section are exempt from the tax. The rates levied are shown in Statistical Appendix 30. The proceeds amounted to Rs. 1.29 lakhs in 1951-52.

Fees for advertisements were first levied by the Calcutta Municipal Corporation in 1951-52. Agitation against the levy led to its liberalisation in various ways, and the Corporation estimates that it will not get more than Rs. 2 lakhs from this tax, as compared with about Rs. 10 lakhs which had been originally expected.

Under the Bombay Municipal Corporation Act, permit fees are charged for display of sky-signs and advertisements by posters and hoardings. The revenue from this source was Rs. 2.91 lakhs for 1952-53.

40. We recommend that all municipal corporations and the bigger municipalities be empowered to levy this tax.

JOHN MATTHAI, *Chairman*

VAIKUNTH L. MEHTA

V. K. R. V. RAO

K. R. K. MENON

B. VENKATAPPIAH

B. K. MADAN

INDARJIT SINGH,

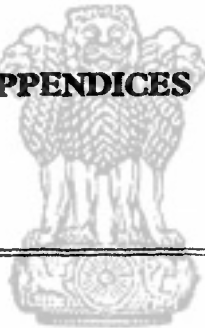
Secretary

Members

BOMBAY;

Dated 30th November 1954.

APPENDICES



सत्यमेव जयते



सत्यमेव जयते

APPENDIX A

TAX POWERS OF THE PANCHAYATS

Under their respective Acts the village panchayats of all the states have been empowered to levy and collect certain taxes. The tax powers of the panchayats and the nature of the taxes in some of the States are briefly described as follows:—

ASSAM

The rural panchayats of Assam have been empowered to levy a large number of taxes. Under the Assam Panchayats Act, there is no obligatory panchayat tax. The panchayats may levy any of the following tax or taxes:—

- (1) A tax on the land revenue payable to the Government at a rate not exceeding one anna per rupee of such revenue. In permanently settled areas this tax is leviable at a rate not exceeding one anna per standard Bigha.
- (2) A tax on uncultivated cultivable land (other than fallow land).
- (3) A tax on buildings leviable on occupied residences payable by the owner at the first instance and assessed at the following uniform rates:
 - (a) Residence of less than 250 sq. ft.—No tax.
 - (b) Residence of more than 250 sq. ft. and less than 550 sq. ft.—Rs. 2 per annum.
 - (c) Residence exceeding 550 sq. ft.—Rs. 10 per annum.
- (4) A marriage tax, i.e., a tax on the entertainment of guests payable by the entertainer at a marriage festival at a rate not exceeding one rupee for every five adult guests entertained.
- (5) A health tax at a uniform rate not exceeding Rs. 5 per annum payable by the occupiers of houses.
- (6) A water tax not exceeding Rs. 2 per annum payable by the occupier of each house.
- (7) A firewood tax, i.e., a tax for collecting firewood for domestic consumption from a panchayat reserve at a uniform rate of Rs. 5 per annum.
- (8) An education tax at a uniform rate not exceeding Rs. 5 per family.
- (9) A tax for cattle welfare purposes not exceeding Rs. 5 per annum per family.
- (10) A tax on boats at a rate not exceeding Rs. 6 per annum per boat.
- (11) A tax on cycles at a rate not exceeding Rs. 3 per annum for each cycle.

(12) A tax on carts at the following maximum rates:

(a) carts used for agricultural purposes.... Rs. 6 per annum per cart.

(b) carts used for business purposes.... Rs. 12 per annum per cart.

(13) A labour tax involving the rendering of manual labour on able-bodied males between 18 years and 40 years of age for not more than 36 days (i.e., 216 hours) in a year or for more than three days at a stretch. The labour tax is commutable into cash at double the rates of wages as determined by the panchayats.

The panchayat taxes of Assam are subject to the rules and bye-laws framed by the State Government. The imposition of taxes requires the approval of the State Government before they are levied.

BIHAR

The panchayat taxes of Bihar have been classified into "compulsory" and "supplementary" (optional) taxes.

There are two compulsory taxes, viz:

(1) Tax payable by persons owning immovable property.

This tax is assessed on families in the following manner:

The panchayat executive makes annual valuation of immovable property of each family. Then the budget estimate of the property tax is divided by the total valuation of the panchayat and multiplied by 100 to get the incidence of tax per cent. of valuation per annum.

(2) A labour tax involving the rendering of manual labour by all able-bodied males between 18 years and 50 years of age for a prescribed number of units of labour. The minimum tax is twelve units of labour per annum commutable into cash at the rates of wages prevailing in the village and determined by the *Mukhiya* (President). This tax is assessed and levied as follows:

The panchayat executive estimates the total requirements of labour units for the year. The total labour units required are divided by the total number of taxable male adults in the panchayat to arrive at the tax units of labour per person. The labour tax per family is arrived at by multiplying the taxable persons of a family by the *per capita* labour-tax-units levied.

The "supplementary" or the optional taxes are:—

(1) A tax on professions, trades and callings (with the previous sanction of the State Government). This tax is graded on the basis of annual turnover and is subject to the maximum of Rs. 50 per annum.

(2) A tax on vehicles, pack animals and porters bringing goods for sale into the village.

- | | | |
|---|---|--|
| (3) Water rate | } | Where service provided by
the gram panchayat. |
| (4) A latrine tax | | |
| (5) A lighting rate | | |
| (6) Drainage fee | | |
| (7) A pilgrim tax (if approved by the Government) | | |
| (8) Any other tax, toll or rate approved by the Government. | | |

The Bihar Panchayat Act contains a further provision that an emergency tax may be levied by the panchayat executive on the occurring of an emergency. The levy of this tax requires that the emergency should be reported to the Government immediately and when the emergency ceases to exist, the emergency tax has also to be withdrawn.

Yet another important provision governing Bihar panchayat taxation is that no tax, toll or rate can be levied by the panchayat if such tax, toll or rate had already been levied by the district board in that area. The tax powers of the panchayats are subject to the rules and orders passed by the Government from time to time.

WEST BENGAL

In West Bengal there are no panchayats but their equivalent viz., union boards. The Government of West Bengal proposes to replace the union boards by village panchayats. At present the only tax levied by the union boards is the union rate. The rate is imposed on owners or occupiers of buildings within the union and assessed on the circumstances and property of the persons liable to pay the rate. The amount of the rate to be realised during a particular year depends upon the annual estimated expenditure of the board. The maximum amount of the rate assessed upon an individual rate-payer is Rs. 84 per annum. Exemptions from the rate may be granted by the board on grounds of poverty. Besides, the union rate, tolls are levied by a few union boards. Such union boards, however, are exceptions rather than the rule.

BOMBAY

The village panchayats of Bombay are under a statutory obligation to levy at least two taxes. One of the obligatory taxes has to be a tax on houses and lands (not liable to agricultural assessment). The tax may be assessed either on the capital valuation of the buildings and lands or on the rental value of the buildings and lands. A maximum rate of eight annas per Rs. 100 of capital valuation of fifteen per cent. of the annual rental value has been prescribed for this tax. The other obligatory tax may be selected out of the following taxes which otherwise are optional taxes of the panchayats:—

- (1) *Octroi*.—Octroi is levied on building materials, cloth, coal, oil-seeds, hosiery goods, kerosene oil and other oils (coconut, groundnut, castor oil), betelnuts and dates, cigarettes, spices, sugar, tea, coffee, etc. The maximum rates of the octroi duty for different classes of goods and commodities have been prescribed under the rules.

- (2) *Tax on fairs and festivals.*—This tax is assessed on shops, booths and stalls, cinemas and circuses, etc., at rates whose maxima have been prescribed.
- (3) *A pilgrim tax.*—The maximum rate of the tax is six annas per pilgrim.
- (4) *Tax on sale of goods.*—This tax is based on the size of the plots of lands occupied by shop-keepers or it is based on the quantity of goods exposed for sale (for example baskets, head-loads, gunny-bags and carts).
- (5) *A tax on marriages, adoptions and feasts.*—These taxes are graded into four classes and a maximum rate has been fixed for each class of marriage, adoption or feast.
- (6) *A tax on shops and hotels.*—This tax is a sort of profession tax.
- (7) Tolls on vehicles and animals.
- (8) Any other tax (not being a toll on motor vehicles) which the State Legislature has power to impose, subject to the approval of the district local board and sanction of the State Government.

UTTAR PRADESH

In Uttar Pradesh panchayats may levy any of the following permissible taxes:—

- (1) Taxes on the land revenue or rent of land at rates not exceeding the maxima prescribed for different classes of tenancy rights in the Act.
- (2) A tax on trades, callings and professions at rates not exceeding the maxima prescribed. Grain, cloth, sugar merchants and sugar refineries (other than sugar factories), employees of mills and factories and persons carrying on any other trade determined by a prescribed authority may be subjected to pay this tax which is assessed on the annual income of their trade, calling or profession. Income below Rs. 500 per annum has been exempted from the tax.
- (3) A tax on buildings owned by persons who do not pay any of the aforesaid taxes not exceeding a minimum rate of five per cent. of their annual rental value.

The imposition of the taxes requires due notification and the final approval of a prescribed authority. Elaborate rules have also been laid down in respect of assessments, collection and exemptions of the panchayat taxes.

PUNJAB

In this State, village panchayats are under a statutory obligation to levy a house tax payable by the occupier, and in case where a house is vacant, by the owner of such building.

A gram-panchayat may, with the previous permission of the Director of Panchayats, impose a special labour tax on the adult

male members of the sabha-area for the construction of a public work of general utility to the inhabitants. Voluntary labour is acceptable in lieu of this tax if approved by the panchayat. In case of an emergency, rendering of manual labour may be made compulsory and without the option of payment in cash.

No other tax has been specified in the Panchayat Act but a general provision has been made that a gram panchayat may, with the previous sanction of the Government, levy any other tax which the Legislature of the State has power to impose.

A panchayat may grant exemptions to any person or class of persons from payment of any tax subject to the prescribed restrictions on this power. It has also been provided in the Act that if the gram panchayat fails to impose the compulsory tax, the Government may take necessary steps to see that the tax is imposed.

MADHYA PRADESH

There are three compulsory panchayat taxes in this State viz..

- (1) A cess on land revenue or rent of land at the rate of six pies in the rupee.
- (2) A tax on all buildings and non-agricultural lands within the gram panchayat area payable by the occupier and where there is no occupier, by the owner. The rates of this tax and the methods of its assessment are to be prescribed by the Government. The Government may also provide an exemption limit in respect of this tax.
- (3) A tax on persons practising any profession, trade or calling within the gram panchayat area. The rate of this tax may be prescribed by the Government.

Besides the above compulsory taxes, there are the following permissible taxes open to the panchayats:

- (1) Tolls on vehicles, pack animals and porters bringing goods for sale into the gram panchayat area.
- (2) A tax payable by the owners of animals used for riding, driving, draught or burden or of dogs or pigs kept within the gram panchayat area.
- (3) A water rate
- (4) A lighting rate
- (5) A drainage fee
- (6) A labour tax involving the rendering of manual labour on works of public utility undertaken by the gram panchayat. This tax is commutable into cash at rates determined by the gram panchayat. It is also permissible to get the labour contributed through a proxy.
- (7) Any other tax, toll, fee or rate approved by the State Government.

} Where service is provided.

The tax powers of the panchayats are subject to rules framed by the Government under the Act. The imposition of the optional taxes requires 2/3rds majority of the panchayat executive and the approval of the district council (Janapada sabha). None of these taxes, if already imposed by the district council in the panchayat

area, can be levied by the panchayats. It has further been provided that if, in the opinion of the district council, the income of a gram panchayat is or is likely to be inadequate for the discharge of any of its duties, the district council may require the gram panchayat to increase its income to the extent considered necessary by the council. In case of the gram panchayat's failure, the district council may require the panchayat to levy or increase any tax, toll or fee. The gram panchayat may make an appeal against such order to the Government whose decision is final.

ORISSA

The permissible panchayat taxes and the tax powers of the panchayats in this State are almost identical with those of Madhya Pradesh. In this State the compulsory property tax is to be assessed according to the circumstances and property of the owners or occupiers of buildings and properties situated within the area of the gram sabha. As regards the labour tax, the Orissa Panchayat Act has prescribed a maximum of four days labour per person per annum or two days labour at a stretch. The profession tax in Orissa is subject to a maximum of Rs. 50 per annum.

The powers with respect of panchayat taxation which in Madhya Pradesh vest with the district councils, vest in Orissa, with the Registrar of Co-operative Societies. The other tax powers and limitations of Orissa Panchayats are the same as in the case of Madhya Pradesh.

MADRAS

The Madras Village Panchayats Act 1950 has provided that every panchayat shall compulsorily levy the following taxes:—

- (1) **House Tax:** This tax is assessable on the basis of capital value or rental value or plinth area measurements.
- (2) **Profession tax** assessable on the basis of the annual income of the persons liable to pay the tax.
- (3) **Vehicle tax** leviable on vehicles (other than motor vehicles), carts and cycles.

The State Government has laid down the minimum and maximum rates in respect of the above compulsory taxes. Besides the above compulsory taxes, the panchayats may also levy any of the following taxes:—

- (1) **Land cess** at the rate of three pies in a rupee of the land revenue paid. It may be levied in addition to the compulsory land cess levied in every district at two annas in the rupee of which, one-fourth is credited to the panchayat of the village concerned and the balance to the district board.
- (2) **A tax on agricultural lands.** It may be levied for specific purposes as watch of crops, construction of a bridge, etc.

There is no statutory provision for an independent labour tax in Madras. The Madras Village Panchayat Act, however, contains a provision for the prescription of rules as to the acceptance of manual labour in lieu of any tax due under the Act.

HYDERABAD

The village panchayats of Hyderabad are empowered to levy any or all of the following taxes:—

- (1) A tax on the capital value of buildings situated in the village; minimum tax on any building being four annas and the maximum Rs. 5 per annum.
- (2) A tax on the sale of goods other than newspapers not coming within the purview of the general sales tax.
- (3) A tax on premises where industries are carried on by the use of oil, steam or electrical energy. Under the village panchayat rules, this tax is to be levied at the following rates:—

Upto 10 horse power—Rs. 10 per annum.

Upto 25 horse power—Rs. 30 per annum.

Upto 35 horse power—Rs. 60 per annum.

Above 50 horse power—Rs. 100 per annum

- (4) With the sanction of the Government, any other tax specified in the List II of the Seventh Schedule to the constitution. Under this general provision, the panchayat rules permit the panchayats to levy the following taxes in addition to those specified above:—

(1) Tax on vehicles and animals.

(2) Pilgrim tax leviable at the rate of annas four per adult and annas two per child.

(3) *Barbardari* toll.

(4) Entertainment tax (theatre tax).

(5) General water tax.

(6) Tax on transfer of immoveable property at the rate of Rs. 2 per Rs. 100 of the property under transfer.

One of the provisions of the Act lays down that the panchayat may, with the consent of the tax payer, commute the payment of any tax into a contribution of labour not exceeding ten days' labour in a year at such intervals, for such period of time, and on such condition as may be prescribed.

The Act enjoins that the proposal to levy, vary, suspend or cancel a tax must be passed by at least 2/3rds majority of the panchayat's executive in a meeting specially convened for the purpose. The resolution so passed further requires the approval of the Government before it can be put into effect.

MYSORE

The list of panchayat taxes of Mysore consists of obligatory and optional taxes. The obligatory taxes are:—

(1) A house tax.

(2) A tax on vacant sites.

(3) A tax on shops and places of business.

(4) A tax on carts.

The optional taxes are:—

- (1) A profession tax (with the sanction of the Commissioner).
- (2) A tax on Shandies, fairs and festivals. (The imposition of this tax is subject to a majority of not less than 2/3rds of the total members of the panchayat).
- (3) A village improvement tax commutable into a contribution of labour.

The Mysore Village Panchayats and District Boards Act of 1952 provides detailed tax schedules in respect of the taxes. These taxes have been graded so as to make them progressive. The maximum rates of different classes have also been prescribed in the schedules. All these taxes are subject to rules made by the State Government. There is a further provision in the Act that if at any time, in the opinion of the Deputy Commissioner, the regular income of the panchayat falls below what is necessary for the proper discharge of its obligatory duties, the Deputy Commissioner may call upon the panchayat to take steps within six months to increase its income to such an extent as may be considered necessary. If the Panchayat fails to take adequate steps to increase its income to the required amount, the Deputy Commissioner may require it to increase the rate or rates of any of the obligatory taxes. An appeal against the order of the Deputy Commissioner lies with the Commissioner.

MADHYA BHARAT

The panchayat taxes of this State have also been classified into compulsory and optional ones. The former class of taxes comprise the following:—

- (1) Taxes on land revenue or rent of land at six pies per rupee of such land revenue or rent.
- (2) A tax on owners of buildings if such an owner has not been subjected to any of the taxes leviable under (1) above.
- (3) A labour tax on males of 21 years to 50 years of age involving the rendering of manual labour for five days (40 hours) per annum. This tax is commutable into a cash payment at the rate of double the daily wages determined by the gram panchayat.

The optional taxes are:—

- (1) A tax on vehicles and draught cattle.
- (2) A tax on the owners of pack-animals, dogs and pigs.
- (3) A water tax. } Where the service is provided by
- (4) A lighting tax } the gram panchayat.
- (5) Any other tax, rate or fee with the sanction of the Government.

There are a few interesting provisions in the Panchayats' Act of this State. The Act provides that any of the taxes may be paid in kind or labour with the approval of gram panchayat. The yield from the compulsory taxes (except the labour tax) has to be divided equally between the gram panchayat, the kendra panchayat and the mandal panchayat. As regards the optional taxes the rule is:

that the entire yield from an optional tax shall accrue to the gram panchayat if the tax is levied by the panchayat. If the tax is levied by the kendra panchayat the yield shall be divided in equal proportions between the kendra panchayat and the gram panchayat. If the tax is levied by the mandal panchayat the yield shall be divided equally between the mandal, the kendra and the gram panchayat. In case of a clash of tax jurisdiction between two or more panchayat authorities the jurisdiction of the higher authority would prevail over the lower ones.

PEPSU

The PEPSU Panchayat Raj Act provides for obligatory and optional taxes. The obligatory taxes are enumerated below:

- (1) A profession tax on persons exercising any profession art or calling (other than agriculture) or carrying on any trade or business in the sabha area.
- (2) A health tax.
- (3) A tax on any person on the birth of his male child.
- (4) A tax on the marriage of a male person.
- (5) If so authorised by the Government, a tax on transfer of property in the form of a surcharge on the duty imposed by the Indian Stamp Act, 1899, on instruments of sale, gift and mortgage with possession of immovable property situated in the sabha area at such rate as may be fixed by the Government not exceeding two per cent. on the value of the property or the amount secured by the mortgagee as set forth in the instrument.
- (6) A labour tax involving the rendering of manual labour in the sabha area by all able-bodied males between the prescribed age-limits for a prescribed number of units of labour. Manual labour is commutable into cash payment equal in value to double the wages of labour to be calculated in accordance with the rates of wages prevailing in the village as determined by the panchayat.
- (7) Any other tax which the legislature of the State has power to impose, if so authorised by the Government.

The Optional taxes are three: viz.,

- (1) A tax on vehicles,
- (2) A tax on animals, and
- (3) A tax on pack animals.

All the panchayat taxes are subject to general or special rules and orders of the Government regulating the rates of taxes, collections etc. Panchayat may grant exemption to any person or class of persons from the payment of any tax with the sanction of the Director.

VINDHYA PRADESH

The tax powers of the village panchayats of Vindhya Pradesh are identical with those of Uttar Pradesh and hence need not be repeated.

SAURASHTRA

All the panchayat taxes of Saurashtra are permissible ones. The panchayats may levy any of the following taxes:—

- (1) Tax upon the owners or occupiers of the houses including farm building whether or not subject to payment of agricultural assessment and not lands which are not subject to payment of agricultural assessment within the limits of the village.
- (2) Tax on markets, fairs, festivals, entertainments.
- (3) Octroi.
- (4) Tax on vehicles and wheels.
- (5) Tax on shops and hotels.
- (6) General sanitary cess.
- (7) Special sanitary cess.
- (8) Tax on bazaars and auctions.
- (9) Toll on animals and vehicles.
- (10) Tax when a gram panchayat makes a supply of water.
- (11) Any other tax, cess, lagoon, latrine due or fee which the Government may direct.

The Act, provides that the taxes would be imposed at such rates and in such manner and subject to such exemptions as the Government may prescribe. The tax payer has been given the option to pay the taxes either in cash or in kind or by rendering manual labour in the manner prescribed by the Government. The Government have also assumed the power to effect reduction or increase or to make modification of any kind with regard to any tax and to issue order to panchayats for due enforcement thereof. The imposition of any tax or fee or the reduction of the rates of the taxes requires the consent of the Government and the Government may direct the panchayats to adopt any course of action while according such consent.

HIMACHAL PRADESH

The Himachal Pradesh Panchayats Act of 1953 specifies only one tax, viz., a local rate at the rate of twenty per cent. of the land revenue. Besides this rate, the Act makes a general provision that a gaon sabha may impose any such taxes as may be approved by the State Government and in such a manner as may be prescribed. Where any person liable to pay any tax is in default of making a payment, the panchayat which imposes the tax is empowered to direct that in addition to the amount of arrears, a sum at the rate of five per cent. of the amount of the arrears for every day of default not exceeding the amount of the arrears shall be recovered from him by way of penalty, provided that the penalty may be waived by the panchayat imposing the tax.

APPENDIX B

DETAILED POSITION IN REGARD TO CONSTITUTION OF MUNICIPALITIES IN VARIOUS STATES

ASSAM

There are 23 municipalities serving a population of 3·81 lakhs. They are designated municipal boards in bigger and town committees in smaller towns.

Constitution: At least four-fifths of the members are to be elected, the remaining being appointed by the Government. Government, however, have power to direct that all members should be elected. The "Chairman" is the executive authority of the municipality. He is generally elected by the board, but in some specified municipalities he can be appointed by the Government.

Supervisory powers of Government: If a board makes default in performing a statutory duty, the Government may fix a period for its performance. If it fails to carry it out within the time given, Government may appoint some one to do it at municipal expense. Government may supersede an incompetent municipal board.

BIHAR

There are 59 municipalities serving a population of 16·54 lakhs.

Constitution: The members are called municipal commissioners. Not less than four-fifths of the municipal commissioners are elected. Government appoint the rest. The term of office of municipal commissioners, etc. is five years. The Chairman is the executive authority and is elected by the municipal commissioners. A President also is elected for a tenure of five years. The President presides over meetings of the commissioners.

Supervisory powers of the Government: If a municipality makes default in performing a statutory duty, Government may fix a period for its performance. If the municipality still fails, Government may appoint the District Magistrate to perform it at municipal expense.

In cases of incompetency, or persistent default, or abuse of power, Government may supersede a municipality.

BOMBAY

There are 219 municipalities including 32 borough municipalities, which are larger district towns. These municipalities serve a population of 48·17 lakhs. The borough municipalities are governed by the Bombay Municipal Boroughs Act of 1925, while the other municipalities are governed by the Bombay District Municipalities Act of 1901.

Constitution: Borough Municipalities.—A municipality consists of councillors, elected on adult franchise. The President is elected by the councillors. He can be removed by the State Government for neglect or incapacity to perform his duty. The President has power to exercise supervision and control over the acts of all officers and servants of the municipality in matters of executive administration and in regard to accounts and records and to dispose of questions relating to the service of the said officers and servants and their pay and privileges.

A chief officer shall be appointed by every borough municipality. He shall be a graduate or qualified engineer. The chief officer shall not be removed from office, reduced or suspended unless by the vote of at least two-thirds of the whole number of councillors and shall not be fined. Subject to the general control of the President, the chief officer shall watch over the financial and executive administration of the municipality.

District Municipalities.—These too consist of councillors elected on adult franchise. There shall be a President who shall be either—

- (a) appointed by State Government by name,
- (b) an *ex-officio* president, or
- (c) if the State Government so directs, elected by the municipality.

In a municipality for which there is a municipal commissioner, the executive power vests in the municipal commissioner. Where there is no municipal commissioner, the executive power vests in the President.

Supervisory powers of the Government

Borough Municipalities.—If a municipality fails to perform a statutory duty, State Government may ask the Commissioner (of the Division) to fix a period for its performance. If it is still not performed, the Commissioner may appoint a person to perform it at the expense of the municipality.

State Government may dissolve or supersede a municipality on the ground of incompetence or persistent defaults in performing duties.

District Municipalities.—The State Government may require any city municipality to appoint a Chief Officer. The State Government may appoint a municipal commissioner to any municipality which has a population of not less than 1,00,000 and to any other municipality if the municipality wants it by an application supported by not less than two-thirds of the whole number of councillors. When a Commissioner is appointed, the Chief Officer's post ceases.

The powers of the State Government to get a municipal duty performed in default and to dissolve or supersede a municipality is the same as in the case of borough municipalities mentioned above.

Any municipality having a population exceeding 15,000 may be notified as a city municipality by the State Government. Any city municipality may appoint a Chief Officer. No Chief Officer shall (save with Government sanction) be removable from office unless by the votes of at least three-fourths of the whole number of councillors. The Chief Officer shall exercise the executive functions specified in the Act. All officers and servants of the municipality shall be subordinate to the Chief Officer.

MADHYA PRADESH

There are 112 municipalities serving a population of 20·23 lakhs.

Constitution.—A municipal committee consists of—

- (a) members elected on adult franchise,
- (b) selected members in number not exceeding one-fourth of total elected members to be selected by single transferable votes by the elected members from amongst residents of the municipality.

The President of municipal committee is elected by all the voters of the municipality by direct election from residents qualified to be voters. The President may appoint not more than 2 Vice-presidents from the members of the committee or from voters of the municipality.

If a municipal committee passes a motion of no-confidence against the President, the President may resign in three days or he will be removed by Government. A President who has so resigned may apply to Government for dissolution of the committee, in which case fresh elections shall be held.

A President who is unable to carry on due to opposition may resign and seek re-election. If re-elected, he may apply to Government for dissolution of the committee. Then re-election of the committee shall be ordered.

The executive powers of the committee vest in the President.

Supervisory powers of the Government.—The Government may require any committee to appoint an Executive Officer and to delegate to him specified powers of the committee and president. If it fails, Government themselves may issue orders for the purpose.

Where a committee is not competent, the Government may appoint a Government Officer as its Executive Officer for a period up to eighteen months and specify his powers.

If a committee fails to perform a statutory duty, Government may fix a period for its performance and if there is default, appoint a person to do it at municipal expense.

If a committee is incompetent to do its duty or persistently makes default in doing its duties or exceeds or abuses its powers to a grave extent, the Government may dissolve it and order fresh elections. If even the re-elected committee commits same defaults, Government may supersede the municipality for a period.

MADRAS AND ANDHRA

There are 61 municipalities in Madras and 35 municipalities in Andhra.

Constitution.—Municipal councillors are elected on the basis of adult franchise. The chairman is elected by councillors. A Commissioner is appointed by Government for every municipality without the concurrence of the municipal council. A municipal council can require the removal of its Commissioner only at a special meeting with the support of not less than two-thirds of the total number of councillors of the municipality.

Supervisory powers of the Government.—The Government have power to compel any municipality to levy the property and service taxes at such rates as the Government deem fit. Where a municipal council abuses its appellate powers and reduces taxes unreasonably in a large number of cases, Government appoint under the Act a special officer to exercise the appellate powers for a specified period. Government can dissolve or supersede a municipality for incompetency, abuse of power, etc. and can also remove a chairman.

ORISSA

There are twenty municipalities (besides six notified area councils and one notified area committee). The set up is akin to the set up in Bihar and Madras.

PUNJAB

There are 94 municipalities (61 municipal committees and 33 town committees) serving a population of 21·18 lakhs.

Constitution.—A municipal committee consists of partly elected members and partly members appointed by Government. Unless Government otherwise directs, the number of appointed members shall not exceed one-fourth of the total number of members. President is elected by the committee. The person so elected becomes President, if approved by Government in the case of first class committees and by the Commissioner, in second class committees.

The Government or the Commissioner as the case may be, may appoint one of the members of the committee as President—

- (i) if the committee applies for doing so,
- (ii) if the committee has failed to elect one within a month of the occurrence of vacancy, or
- (iii) where any committee is excluded by Government from the provision for election.

With Government sanction, salary may be paid to President from municipal funds. Only a few municipalities have appointed Executive Officers with Government's approval.

Supervisory powers of the Government.—Government may remove a President for abuse of powers or habitual failure to perform his duties. In case of emergency, a Deputy Commissioner may carry out a municipal work at the expense of the municipality.

If a municipal committee defaults in performing a statutory duty, the Commissioner may fix a period for performance of the duty. If there is still default, Commissioner may appoint some person to perform it at municipal expense. Deputy Commissioner has similar powers in the case of second class municipalities.

In case of incompetency or persistent default in doing duty or abuse of powers, Government have power to supersede a municipality.

The law has recently been amended to empower Government to force any municipal committee (or district board or town committee) to impose a tax not already levied or to modify the rate of a tax levied. Government can order levy of the tax or modify the rate themselves in case of default by local body.

UTTAR PRADESH

There are 120 municipalities (apart from 37 notified areas and 265 small town committees) serving a population of 62·70 lakhs.

Constitution.—Municipal boards consist of members elected on adult franchise. A few are co-opted by the board from women, etc. in three municipalities, Government nominate a few members. A President is elected by direct election by electors of the municipality. Government may notify that this shall not apply to any board. In such a case, Government may nominate a person as President.

Every municipal board shall appoint an Executive Officer. His powers are to issue licences, receive and recover municipal dues and to credit them to municipal boards. Executive powers under specified sections vest in him.

Supervisory powers of the Government.—The appointment of the Executive Officer and his salary are subject to Government approval. In default of municipal board appointing an Executive Officer, Government may appoint him.

Municipalities whose income exceeds Rs. 50,000 shall (unless Government otherwise direct) employ an accountant belonging to the Provincial Accounts Service. The board may by a resolution recommend the transfer of the accountant. The Government shall transfer the accountant, provided the board gives sufficient reasons therefor.

The State Government may require a board to impose any tax leviable but not imposed at such rate and within such period as may be specified by Government, or modify the rate of any tax already imposed.

If the board fails, Government may pass order imposing or modifying the tax, and the order shall operate as if it had been resolution passed by the board. Government have also power to dissolve or supersede a municipal board.

WEST BENGAL

There are 81 municipalities, including one in the merged Cooch-Bihar area.

Constitution.—All members of the municipality (called commissioners) are elected but not an adult franchise. A chairman is elected by the municipal commissioners.

The State Government may require any municipality whose annual income is above Rs. 1 lakh to appoint an Executive Officer. An Executive Officer can be removed by the commissioners only at a special meeting with the support of not less than two-thirds of the whole number of commissioners. Qualifications of Executive Officer are prescribed by Government. His pay is fixed by the municipal commissioners subject to approval of Government. All other officers and servants of the municipality are subordinate to the Executive Officer. The commissioners may delegate to the Executive Officer any of their powers and the Chairman shall cease to exercise such powers. In respect of all other matters, the Executive Officer shall act under the direction of the Chairman.

Supervisory powers of the Government.—In case of default of performing a statutory duty by the municipality, Government may ask District Magistrate to perform it at municipal expense. Government may dissolve or supersede a municipality. In case of default or incompetency of a department of municipality, Government may appoint a suitable person to be in charge of that department and exercise all powers of the commissioners in that department.

HYDERABAD

Constitution.—There are 140 city and town municipalities in the State serving a population of 25.11 lakhs.

Towns with a population of 15,000 or more are generally constituted into city municipalities while towns with a population of 5,000 or more but less than 15,000 are generally constituted into town municipalities. About one-fourth of the members of city municipalities and about one-third of the members of town municipalities are nominated by Government. Of the nominated members, two or three are officials. The remaining members are elected on adult franchise.

The President of a municipal or town committee is elected by the members of the committee from amongst the elected members thereof.

The President exercises supervision and control over the acts of all officers and servants of the committee including the executive officer. One of the duties of the President is to watch over the financial and executive administration of the committee.

The Government appoint an executive officer for each city and town municipality. The executive officer shall be a member of the Hyderabad Local Government Service. His transfer, promotion, and disciplinary action against him are regulated by the Government in consultation with the committee concerned. The executive officer exercises the executive power, subject to the sanction of the committee, wherever required.

Apart from the executive officer, other bigger officers also, e.g., municipal engineer, secretary, supervisors, etc. are appointed by the Government from amongst a State cadre of municipal service.

All local bodies have to contribute $12\frac{1}{2}$ per cent. of their income to a fund out of which are paid all the staff earning a salary of Rs. 100 or above.

As the officers are appointed by the Government, the local bodies cannot take any disciplinary action against them. They can recommend appropriate action to the Government.

The appointment of the lower staff is completely within the power of the municipalities. Since they are the appointing authorities, they can take disciplinary action including dismissal. However there is an appeal to the Government and as the appellate authority Government exercises revisionary powers.

Supervisory powers of Government.—A member or President may be removed for abuse of power by the State Government in the case of municipal committees and by the Secretary, Local Government in the case of town committees. The Government may dissolve and reconstitute by fresh elections incompetent Committees. If even the reconstituted committee is incompetent Government may supersede the committee.

MADHYA BHARAT

Constitution and supervisory powers of the Government.—There are 84 municipalities in the State serving a population of 14·63 lakhs.

A new Municipal Bill for all the municipalities in the State is under the consideration of the State Legislature. Pending enactment of the Bill, the laws which were in force in the covenanting States of Madhya Bharat, before merger, continue to be in force in the respective municipalities. Most of them are elected on restricted franchise and control of the Government both in respect of general matters and taxation is greater.

MYSORE

There are 107 municipalities in the State, two city and 105 town municipalities. Town municipalities are created generally for towns with a population of 3,000 and over but less than 25,000, while city municipalities are constituted for towns with a population of more than 25,000.

Town Municipalities.—There is a council consisting of from ten to twenty councillors. All of them are to be elected on adult franchise, Government appointment being reserved to cases of vacancies arising out of the failure of the electors to elect a councillor.

The council shall elect a President. The President is the executive authority in municipalities where no executive officer is appointed. In municipalities where an executive officer is appointed, he shall exercise supervisory powers and “watch over the financial and executive administration of the municipal council”, besides presiding over the meetings of the Council.

Supervisory powers of the Government.—Supervisory powers of the Government are extensive. Apart from the power to supersede

a municipality for maladministration, they have power to require the municipality to appoint certain officers for due performance of functions, *viz.*, health officer and engineer; may order an inquiry into the conduct of affairs of any municipality and may repeal wholly or in part or modify any rule or bye-law made by any municipal council.

In regard to taxation, the Government have power to require the municipality to levy any permissible tax or assess rate.

City Municipalities: There is a council consisting of councillors of whom not less than four-fifths are elected and the rest may be nominated. Of the nominated members, salaried servants of the Government shall not exceed one half.

For every municipality, there shall be a president, who may either be elected or appointed by the Government either by name or designation. He shall be the executive authority in municipalities where there is no executive officer or municipal commissioner: in municipalities where either an executive officer or a municipal commissioner is appointed, he shall exercise supervisory powers and watch over the financial and executive administration of the municipality, besides presiding over the meetings of the council.

Supervisory powers of the Government.—Government has powers, including the power to require the municipality to levy a tax or raise its rate, of supervision similar to those in the case of town municipalities.

PEPSU

There are 21 municipalities and 37 small town committees serving a population of 6·48 lakhs. The constitution and powers of supervision of the Government are akin to those of Punjab State.

RAJASTHAN

There are 139 municipal boards. A new Act, the Rajasthan Town Municipalities Act, 1951, was promulgated on 22nd December 1951 but the position has not been stabilised under that Act.

Prior to the promulgation of this Act, the municipalities in the various covenanting States were governed by different laws. In some cases, they were mere departments of the Governments.

SAURASHTRA

There are 80 municipalities, serving a population of 13·11 lakhs. Twenty of these municipalities are in towns with a population less than 5,000.

The constitution and powers of supervision of the Government are akin to those in Bombay, Saurashtra having adopted the Bombay enactments with slight modifications.

TRAVANCORE-COCHIN

There are 24 municipalities serving a population of 8·01 lakhs.

Constitution.—In each municipality, there is a council consisting of not less than 12 and not more than 24 members.

Every municipality shall have a Chairman who may be elected by the council or if the Government desire, may be appointed by the Government. The Chairman however is not the executive authority but only an authority presiding over the meetings of the Council and supervising the affairs.

The Government may appoint a Commissioner for a municipality and he shall be the executive authority.

Supervisory powers of the Government.—Government have power to supersede or dissolve a municipality, appoint an administrator, cancel or modify any resolution of the municipality, remove a chairman for misconduct, etc., and transfer any municipal servant from one municipality to another municipality (with the consent of the municipalities).



सत्यमेव जयते

APPENDIX C

POWERS OF TAXATION OF MUNICIPALITIES IN DIFFERENT STATES

The important taxes levied by the municipalities in the various States, and their powers in respect of the levy of the tax, alteration of the rate, etc. are as under:—

ASSAM

Property tax, service taxes, tolls and tax on animals and vehicles are the important taxes levied by the municipalities in this State.

A municipal board may impose any tax which it is permitted to levy without the specific sanction of the Government; but when the board has taken a loan from or guaranteed by the State Government, it shall not, without the previous sanction of the State Government make any alteration in respect of any tax which may have the effect of reducing the income of the board.

BIHAR

The taxes levied by the municipalities are:—

- (1) the holding tax (property tax);
- (2) service taxes, including water and latrine tax;
- (3) taxes on vehicles and animals;
- (4) registration fee on carts;
- (5) registration fee on vehicles plying on hire;
- (6) tax on persons;
- (7) lighting tax; and
- (8) tax or fee on dogs.

The last three are minor taxes. The municipalities are empowered to fix the rates of taxes subject to the maxima laid down in the Act. They cannot however decrease the rate of any tax levied by them without the previous sanction of the Government.

BOMBAY

(1) A General House Tax; (2) service taxes like a sanitary cess, a drainage tax, a water rate and a lighting tax, assessed on the rateable value of properties; (3) Octroi; (4) a special education tax, in the case of borough municipalities; (5) a tax on animals and vehicles, including motor vehicles and (6) a terminal tax, provided it was being levied prior to 16th July 1917, are the principal taxes levied by the municipalities.

It is also provided that the municipalities can levy any other tax in the State List with the sanction of the State Government.

All changes in taxes have to be made with the approval of a government authority, the taxation proposals of the Municipal Boroughs being sanctioned by the Government themselves and those of the District Municipalities sanctioned by the Director of the Local Authorities concerned.

MADHYA PRADESH

(1) A general property tax; (2) service taxes; (3) octroi; (4) terminal tax; (5) tolls; (6) tax on vehicles and animals (exclusive of motor vehicles); (7) profession tax; (8) theatre tax; (9) pilgrim tax; and (10) Haisiyat tax, are the principal taxes levied by the municipalities. There is a very wide divergence in the utilisation of the different taxes in this State. The 112 municipalities levy the different taxes as under:—

General property tax	73 municipalities.
Service taxes	104 "
Octroi	49 "
Terminal tax	26 "
Toll	43 "
Tax on vehicles and animals	76 "
Profession tax	47 "
Theatre tax	1 "
Pilgrim tax	1 "
Haisiyat tax	14 "

The first imposition of any tax requires the sanction of the Government. No rates (minima or maxima) have been prescribed for most of the taxes and the municipalities may increase or decrease the rates without the specific sanction of the Government; however if the Committee is indebted to the Government, any proposal for a reduction in the rate of any tax requires the sanction of the Government.

MADRAS AND ANDHRA

(1) Property tax comprising of (a) a tax for general purposes, (b) a water and drainage tax, (c) a lighting tax, and (d) a scavenging tax; (2) profession tax; (3) tax on vehicles (excluding motor vehicles) and animals and carts; (4) a surcharge on stamp duty; (5) an education tax as a surcharge on property tax; and (6) a pilgrim tax (in the case of pilgrim centres) are the important taxes levied by the municipalities.

In the case of property tax, no maxima or minima are prescribed in the Act, except in the case of vacant lands in respect of which maximum rates are prescribed under the rules. The municipalities are, therefore, at liberty to fix and alter the rates without any specific sanction of the Government. Government however have the power to compel municipalities to levy the property tax at the rates fixed by the Government.

In respect of the profession tax and tax on vehicles and animals and carts, maximum rates are prescribed and the municipalities are at liberty to fix the rates, subject to the maxima prescribed. The surcharge on stamp duty is levied at a fixed rate (fixed by the Government).

ORISSA

(1) Property tax comprising (a) a holding, (b) latrine, (c) water, (d) lighting, and (e) drainage tax; (2) taxes on carriages, carts and animals; (3) taxes on professions, etc.; (4) a poll tax on vehicles and animals carrying passengers and goods to festivals and fairs held within municipal areas are the principal taxes levied by the municipalities. In addition, they are also permitted to levy an

education tax or any other tax or cess for the health, safety and convenience of the residents, with the sanction of the Government.

In respect of the property and other taxes, maximum rates are now prescribed, and the municipalities may levy the taxes, subject to the maxima prescribed.

PUNJAB

(1) A tax on houses and lands; (2) service taxes (water, lighting, drainage, conservancy, etc.); (3) Octroi and terminal tax; (4) profession tax are the important taxes levied by the municipalities. The maxima are prescribed by the Government and the municipalities can levy these taxes at any rate subject to the limits prescribed. However, if any municipal council consists of less than three-fourths elected members or its cash balances have at any time within the three months preceding the date of passing the resolution imposing the tax, fallen below Rs. 20,000 or one-tenth of the income accrued in the previous financial year, whichever amount is less, it shall not impose a tax without the previous sanction of the Government.

It is also provided that a municipality may levy any other tax in the State List, with the previous sanction of the Government.

There is a considerable variation in the levy of the taxes in this State also. In the 94 municipalities (61 Municipal Committees and 33 Town Committees), the various taxes are levied as under:—

“A” MUNICIPAL COMMITTEES—61

	Names of Taxes	No. of Municipal Committees levying them
1.	Taxes on buildings and lands	40
2.	Octroi	61
3.	Profession tax	4
4.	Tax on menial domestic servants	1
5.	Tax on animals including fees for registration of dogs	8
6.	Tax on vehicles	22
7.	Water tax	6
8.	Water rate	12

“B” TOWN COMMITTEES—33

	Names of Taxes	No. of Town Committees levying them
1.	Property town rate	13
2.	Personal town rate	25
3.	Profession tax	3
4.	Tax on vehicles	1
5.	Tax on dogs	3
6.	Terminal Tax	2
7.	Octroi	11

UTTAR PRADESH

The principal taxes levied by the municipality are:—(1) property tax comprising of (a) a tax on buildings and land and (b) water tax; (2) tax on professions, trades and callings; and (3) tax on circumstances and property; (4) octroi; (5) terminal tax on goods; (6) terminal toll (tax on goods carried by road); (7) pilgrim tax (terminal tax on passengers); and (8) toll on roads and ferries.

There is a considerable variation in the levy of different taxes. In the 120 municipalities, the various taxes are levied as under:—

Octroi	47 municipalities.
Terminal tax on goods	20 „
Terminal tax on passengers (pilgrim tax)	8 „
Terminal Toll	19 „
Toll on roads and ferries	37 „
Tax on buildings and lands	37 „
Water tax	21 „
Tax on professions, trades and callings	44 „
Tax on circumstances and property	13 „

The municipalities have only the power to indicate or select the tax to be imposed. Every proposal for the levy of a tax, or alteration of the rate requires the sanction of a higher body (of the Government in the case of city municipalities and Divisional Commissioner in the case of others). The Government have also recently acquired the power to require a municipality to impose a tax, or modify the rate of any existing tax and to impose or modify it themselves if the municipality fails to comply with their orders. The simultaneous imposition of the tax on professions, etc., and the tax on inhabitants assessed according to their circumstances and property; the octroi duty and terminal tax by any municipality are prohibited.

WEST BENGAL

(1) Property tax under the name of holding rate; (2) service taxes (water, lighting, drainage, conservancy, etc.); (3) taxes on vehicles and animals; (4) profession tax and tolls are the important taxes which the municipalities can levy.

Maximum limits are prescribed in respect of all the taxes except tolls on ferries and bridges, and within the limits prescribed, the municipalities can fix and alter the rates. Sanction of the Government is required only in the case of the levy or the alteration of the rate of tolls.

HYDERABAD

(1) Property tax; (2) profession tax; (3) vehicles and animal tax; (4) Barbardari toll; (5) pilgrim tax; (6) general water tax; (7) market toll; (8) tax on public entertainments; (9) tax on transfer of immovable property; and (10) tax on advertisements are the important taxes which the municipalities may levy. In addition, it is provided that any other tax also may be imposed with the approval of the Government in consultation with the Finance Department. The levy of any tax or a modification of its rate generally requires the sanction of the Government.

MYSORE

(1) Tax on buildings and lands; (2) a special general and sanitary cess; (3) a water rate; (4) tax on vehicles and animals (excluding motor vehicles), (5) tolls on vehicles; (6) octroi; (7) profession tax; (8) surcharge on stamp duty on transfers of immovable property are the important taxes levied by the municipalities. The levy of every tax and any modification of its rates requires the sanction of the Government. This is the result of the provision that all details regarding the tax including the rate of levy shall be in the form of rules approved by the Government.

PEPSU

The taxes leviable by the municipalities in Punjab are leviable in PEPSU also. However, in fact only the octroi is levied by all the municipalities, including small town committees. A beginning is being made with the levy of property tax in one or two towns, *e.g.*, Bhatinda and Patiala. The procedure etc. in respect of the levy of taxes is akin to the procedure etc. in Punjab.

 RAJASTHAN

Prior to merger, there was no settled system of local taxation. "In some cases the local bodies were merely government departments and their expenditure was met entirely from the revenues of the States. In some cases even though the local bodies could raise independent revenues, yet the heads assigned to them were based only on executive orders. In most of the cases, the local bodies were not able to meet their expenditure from the assigned revenues and they had to depend on liberal grants given by the Covenanted States".

In the new Act, *viz.*, the Rajasthan Town Municipalities Act, 1951, all the taxes which the municipalities in Part A States could levy have been permitted to be levied by the municipalities in Rajasthan. The municipalities are however none too anxious to start levying the taxes. The present position is that out of 139 municipalities, house tax is levied by only one municipality (at five per cent. of the rental value). Octroi is levied in 85 municipalities. Vehicle and animal tax, (other than motor vehicles) is levied by almost all the municipalities. Likewise, entertainment tax is levied by almost all the municipalities and yields them substantial revenue. However, Government feels that this is a source better utilised by the State Government, as in the case of certain other States.

SAURASHTRA

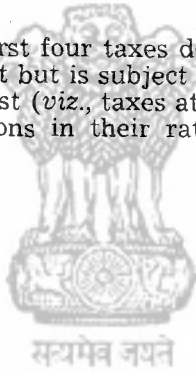
In the pre-integration period, the sources of municipal revenues differed greatly from State to State. Since a number of municipalities were in the nature of State departments, the question of independent sources of revenue did not arise for them at all. In other municipalities the gap between expenditure and income was made up by State grants. The main sources of revenue were proceeds from sales of land, octroi duty, local custom duties, and bham (monopoly on collection of hides and skins of dead animals). With the enforcement of the new

Act more sources of revenue, viz., octroi, sanitary cess fees and rents of various markets, fees of slaughter houses, hotel licence fees, latrine fees, a rate on building or land, lodge and bakery licence fees from public conveyances including cycles were transferred. But the newly elected municipalities had to start *de novo* in the matter of finances and very naturally it was difficult for these bodies to raise and exploit all the financial resources at their disposal on their very inception. The State Government therefore had to take over the onus of introducing initial and important municipal taxation. The Saurashtra Terminal Tax and Octroi Duty Ordinance was promulgated in 1949, which ensured uniformity in the levy and exemptions and also secured much needed revenues for the newly elected municipalities.

TRAVANCORE-COCHIN

(1) Property tax comprising a general rate, a water and drainage tax, a lighting tax and a scavenging tax; (2) taxes on vehicles and animals; (3) tax on carts; (4) profession tax; (5) entertainment tax; (6) advertisement tax, and (7) tolls on vehicles and animals entering the municipality are the important taxes which the municipalities levy.

While the levy of the first four taxes does not require any specific sanction of the Government but is subject to rules incorporated in the Act, the first levy of the rest (viz., taxes at serial Nos. 5, 6, and 7) and any subsequent modifications in their rate requires the sanction of the Government.



APPENDIX D *Taxes leviable by Municipal Corporations*

Municipal Corporation of	Taxes which must be levied	Taxes which may be levied	Remarks
Bombay	1. Property taxes— (a) General tax of not less than 8 and not more than 21 per cent. with a fire tax of not less than $\frac{1}{4}$ and not more than $\frac{3}{4}$ per cent. of the rateable value of buildings and lands. (b) Water tax. (c) Halalkhore tax of not more than 5 per cent. of the rateable value. 2. A tax on vehicles and animals. 3. A theatre tax. 4. Town duties. 5. Dog tax.	A. Education Cess.	Education cess is designed as a tax which could be passed on to the occupiers. It has not so far been levied. While General tax, with fire tax is to be borne by the owner of the building, water and Halalkhore taxes are to be borne by the occupants. They are however in the first instance collected from the owner who is given a rebate in the rateable value fixed. Dog tax is more in the nature of a licence fee for keeping dogs.
Calcutta	1. A tax on carriages and animals. 2. A tax on dogs. 3. Tax on professions, trades and callings. 4. Scavenging tax on certain trades (those keeping animals).	A. A consolidated rate not exceeding 23 per cent. on the annual value of all lands and buildings. B. A petroleum Cess.	Tax on professions etc., is enforced in the form of a licence to be taken out.
Madras		A. A property tax. B. A tax on companies. C. A profession tax. D. A tax on carriages and animals. E. A tax on carts. F. A tax on timber brought into the city. G. A tax on advertisements. H. A duty on certain transfers of property in the shape of an additional stamp duty.	Tax on advertisements other than advertisements in newspapers.

APPENDIX D—contd.
Taxes leviable by Municipal Corporations—contd.

Municipal Corporation of	Taxes which must be levied	Taxes which may be levied	Remarks
Ahmedabad and Poona.	1. Property taxes— (a) A general tax of not less than 12 per cent. of rateable value. (b) Water tax. (c) Conservancy tax. 2. A tax on vehicles, boats and animals.	A. Octroi. B. Profession tax. C. A tax on dogs. D. A theatre tax. E. A toll on animals and vehicles, other than motor vehicles or trailers. F. Any other tax which the State Government has power to levy.	Nagpur Corporation has been established with effect from 2nd March 1951 and these were the taxes levied during 1951-52.
Nagpur	1. Property taxes 2. A latrine or conservancy tax. 3. A tax for construction and maintenance of public latrines. 4. Water rate, where water is supplied by the corporation. 5. A cess on animals or goods brought within the city for sale, consumption or use therein.	A. Profession tax. B. A tax on vehicles or animals including dogs. C. A toll on vehicles and animals entering the city and boats moored within the city. D. Fees on the registration of cattle sold within the city. E. A lighting rate where public lighting is provided by the corporation. F. Market dues on persons exposing goods in any market or place belonging to the Government Improvement Trust or Corporation. G. Any other tax which the State Government has power to impose.	
Jabalpur	Same as Nagpur		
Patna		A. A tax on holdings. B. A water tax.	

APPENDIX D—contd.

Taxes leviable by Municipal Corporation—contd.

Municipal Corporation of	Taxes which must be levied	Taxes which may be levied	Remarks
Patna—contd.		C. A latrine tax.	
		D. A lighting tax.	
		E. A drainage tax.	Drainage tax cannot be imposed in an area where latrine tax is imposed and <i>vice versa</i> .
		F. A tax on the vehicles, horses and other animals.	
		G. A fee on the registration of carts.	Taxes at 'G' and 'H' are sometimes designated fees and sometimes taxes.
		H. A fee on the registration of vehicles kept, used or plying for hire and to taxi.	
		I. A tax on trades, professions and callings.	
		J. A toll or duty on animals or goods brought in for sale, consumption or use.	
		K. A toll on vehicles, carts and animals entering the city but not liable to pay the tax or fee under F, G & H.	
		L. A tax on advertisements.	
		M. Any other tax, which the State Government has power to levy.	
Hyderabad and Secunderabad Corporations.	1. Property taxes	A. Octroi.	
	2. A tax on vehicles, boats and animals.	B. Profession tax.	
		C. Tax on dogs.	
		D. Theatre tax.	
		E. A toll on animals and vehicles entering the city.	
		F. With the previous sanction of the Government any other tax which the Legislature of the State has power to impose in the State.	

APPENDIX D—contd.

Taxes leviable by Municipal Corporation—concl'd.

Municipal Corporation of	Taxes which must be levied	Taxes which may be levied	Remarks
Bangalore		A. A property tax.	
		B. A Profession tax.	
		C. A tax on carriages and animals.	
		D. A tax on carts.	
		E. An octroi on animals or goods or both brought within the octroi limits for consumption or use therein.	
		F. A tax on advertisements.	
		G. A duty on certain transfers of property in the shape of an additional stamp duty.	
		H. Any other tax.	
Trivandrum		A. Property tax.	
		B. Profession tax.	
		C. Tax on companies.	
		D. Tax on carts.	
		E. Tax on entertainments.	
		F. Advertisement tax.	
		G. Tax on animals and boats.	

APPENDIX E

Extent of levy of Property tax in different States

S. No.	State	Legal provision	Actual Position
I	2	3	4
<i>Part A States</i>			
1. Andhra	.	Levy is optional as regards municipalities and compulsory as regards the village panchayats.	Levied by all the municipalities and the village panchayats.
2. Assam	.	Levy is optional in respect of municipalities as well as village panchayats.	Levied by all the municipalities. The village panchayats have not yet started levying this tax.
3. Bihar	.	Levy is optional in respect of the municipalities, and compulsory in respect of village panchayats.	Levied by the municipal corporation of Patna and the municipalities.
4. Bombay		Levy is compulsory in respect of the municipal corporations and village panchayats. It is optional in respect of municipalities.	It is levied by all the municipal corporations, municipalities and village panchayats.
5. Madhya Pradesh		The levy is compulsory in respect of municipal corporations and panchayats and optional in respect of municipalities.	Out of 112 municipalities, 73 municipalities levy the general tax and 104 levy service taxes.
6. Madras		The levy is optional in respect of the municipal corporation and the municipalities but is compulsory in respect of village panchayats.	Levied by the municipal corporation, and all municipalities and village panchayats.
7. Orissa		Levy is optional for municipalities and compulsory for panchayats.	Levied by all the municipalities.
8. Punjab		The levy is optional in the case of municipalities and small town committees and compulsory in respect of village panchayats.	Levied in only 40 municipalities out of 61 and 13 small town committees out of 33.
9. Uttar Pradesh		Levy is optional in the case of municipalities; in village panchayats in the case of those who do not pay a tax on rental value of land, or a tax on professions, trades and callings, a tax on buildings is levied.	Levied in 37 municipalities out of total number of 120.
10. West Bengal		Levy is optional for the Calcutta Municipal Corporation and other municipalities.	Levied in Calcutta and in other municipalities.

APPENDIX E—contd.

Extent of levy of Property tax in different States—contd.

S. No.	State	Legal provision	Actual Position
1	2	3	4
<i>Part B States</i>			
11.	Hyderabad	Levy is optional for municipal corporations, municipalities and village panchayats.	Levied by the municipal corporations and all the municipalities. Many of the panchayats have begun to levy this tax.
12.	Madhya Bharat	Levy is optional for municipalities and compulsory for panchayats.	Levied by 73 out of the 84 municipalities.
13.	Mysore	Levy is optional for municipalities and compulsory for panchayats.	Levied by the municipal corporation and all municipalities.
14.	PEPSU	Levy is optional	Proposed to be levied only by two municipalities from 1954-55 out of 21 municipalities and 37 town committees.
15.	Rajasthan	Do.	Levied by only one municipal board out of 139.
16.	Saurashtra	Levy is optional in the case of municipalities and panchayats	Not levied by a number of municipalities.
17.	Travancore-Cochin	Levy is optional	Levied by the municipal corporation and the municipalities. A house tax is levied by the village panchayats also.
<i>Part C States</i>			
18.	Ajmer	Levy is optional	Levied by the Ajmer Municipality.
19.	Delhi	Do.	Levied by the municipal committee.
20.	Coorg	Do.	Levied in the municipalities and notified areas.
21.	Himachal Pradesh	Do.	Property tax levied by two municipalities out of 11. Service tax is levied by one municipality.

APPENDIX F

PARTICULARS REGARDING APPELLATE AUTHORITIES RELATING TO PROPERTY TAX ASSESSMENTS IN MUNI- CIPAL CORPORATIONS AND MUNICIPALITIES

MUNICIPAL CORPORATIONS

In the Municipal Corporations of Calcutta, Bombay, Ahmedabad and Poona, appeals against property tax assessments fixed by the municipal commissioner lie to the Small Cause Court.

In the Calcutta Corporation, a further appeal on the decision of the Small Cause Court lies to the High Court in all cases. In the case of the Corporations of Bombay, Ahmedabad and Poona, an appeal shall lie to the High Court in the case of the Bombay Corporation and to the District Court in the case of the other two Corporations, against the decision of the Small Cause Court where a rateable value in excess of Rs. 2,000 is fixed or in any other case, upon a question of law or the construction of a document.

In the Madras Municipal Corporation, the appeals lie to the Taxation Appeals Committee consisting of a paid Chairman appointed by the State Government and two councillors elected by the Corporation Council. The parties can prefer a further appeal against the decision of the Taxation Appeals Committee to the Small Cause Court whose decision is final, but where a question of law is involved, the Small Cause Court should make a reference to the High Court and dispose of the case in conformity with the order of the High Court on the reference.

MUNICIPALITIES

The appellate authorities in respect of property tax assessments in municipalities are different in different States. The systems followed in some principal States are stated below:

Madras and Andhra: In the Madras and Andhra States, appeals against municipal taxes in district municipalities lie to the municipal council, whose decision is final. The municipal council usually delegates its power of disposing of the appeals to an *ad hoc* committee of a few municipal councillors. Where a municipal council or its committee abuses its powers to a grave extent and reduces tax assessments unreasonably in a large number of cases, the State Government, in exercise of its powers under Rule 28A of Schedule IV to the Madras District Municipalities Act, 1920, withdraws the appellate powers of the municipal council and vests them in a special officer appointed by the Government.

Assam: Appeals are disposed of by a committee of the municipal board. The committee's decision is final.

Bihar: Appeals are decided by a committee of two members of the municipal board and one Government servant not below the rank of a Deputy Magistrate.

Bombay: Objections to assessments are disposed of by the municipal commissioner where there is one, and in other cases by a Standing Committee of the municipal board. Appeals against the decision of these authorities lie to a Magistrate or Bench of Magistrates. A revision petition lies against the decision of the Magistrate or Bench of Magistrates to the relevant appellate court.

Madhya Pradesh: The appeals lie to the Deputy Commissioner. A second appeal lies to Government in cases of disputes about the jurisdiction of the appellate authority or any principle of assessment.

Punjab: The appeals are disposed of by the Deputy Commissioner or other officer empowered by the Government.

Uttar Pradesh: Objections to assessments are first heard by a committee of the municipal board. Appeals against the decision of the committee are disposed of by the District Magistrate or other officer empowered by the Government.

West Bengal: The appeals lie to a committee of the municipal board. The committee's decision is final. The State Government is considering the appointment of an accurate valuation body as the appellate authority. Pending implementation of this proposal, the State Government propose to provide that one member of the appeal committee should be appointed by the Government.

The Bihar and West Bengal Government have stated that appeal committees of municipalities reduce tax assessments unduly.

Hyderabad: Appeals are heard by the Collector in the case of city municipalities and the Deputy Collector in the case of town municipalities. A second appeal lies to the Secretary and Minister, Local Government.

Madhya Bharat: Appeals are preferred to the Inspector General of Municipalities in the case of one municipality and to the Collector in the case of other municipalities.

Mysore: Appeals lie to the prescribed Magistrate. A revision petition against the decision of the magistrate lies to the court to which appeals against his decision ordinarily lie.

APPENDIX G

DETAILS OF THE LEVY OF PROFESSION TAX IN CERTAIN STATES

WEST BENGAL

In the Calcutta Municipal Corporation and other municipalities in West Bengal, trades and professions are divided into a number of classes and the maximum profession tax payable by each class is fixed. The maximum rate of tax varies from Rs. 3 to Rs. 500 per year in the case of the Calcutta Municipal Corporation and from Re. 1 to Rs. 200 per half-year in the other municipalities. The assessee has to pay the tax half-yearly in the case of a municipality and annually in the case of the corporation in advance, as a fee for taking out a licence for carrying on the trade, etc.

The maximum rates of the tax laid down for the several classes in the municipalities other than the Calcutta Corporation are as below.

Serial No.	Classes	Maximum half-yearly tax in rupees
1	2	3
		R
1	Company transacting business within the municipality for profit or as a benefit society not being a registered co-operative society of which the paid up capital is equivalent to :—	
	(a) More than Rs. 10,00,000	200
	(b) More than Rs. 5,00,000 but not more than Rs. 10,00,000	100
	(c) More than Rs. 1,00,000 but not more than Rs. 5,00,000	50
	(d) Rs. 1,00,000, or less	20
2	Merchant, banker not being a registered co-operative society, money-lender, wholesale trader, owner or occupier of a market, bazar or theatre or place of public entertainment, broker or <i>dalal</i> in jute, cotton, precious stones, landed property, country produce, silk or other merchandise—whose place of business is valued under this Act at not less than :—	
	(a) Rs. 100 per mensem	50
	(b) Rs. 50 per mensem	25
	(c) Rs. 25 per mensem	12
3	Commission agent, broker not included in serial No. 2, architect, engineer, contractor, medical practitioner, dentist, barrister, legal practitioner :—	
	(a) in respect of whose income, income-tax is payable	10
	(b) in respect of whose income, no income-tax is payable	5

Serial No.	Classes	Maximum half-yearly tax in rupees
1	2	3
4	Retail trader or shop-keeper, boarding house keeper, hotel-keeper, lodging house-keeper, tea-stall keeper, eating-house keeper—whose place of business is valued under this Act at not less than :—	
	(a) Rs. 25 per mensem	8
	(b) Rs. 12 per mensem	4
	(c) Rs. 6 per mensem	2
	(d) Rs. 3 per mensem	1

District boards in West Bengal do not levy profession tax, but the union boards levy a union rate which is of the nature of the 'tax on circumstances and property', which itself is a kind of profession tax. The maximum amount of assessment to the union rate is Rs. 84 per annum.

MADRAS AND ANDHRA

Profession tax is levied by all municipalities including the Corporation of Madras, a few district boards and several panchayats. The tax is levied as a local tax on income. Income from professions, trades, callings, salaries, pensions and income from investments are all liable to profession tax. Agricultural income, however, is not liable to the tax. The tax is levied half-yearly on the basis of the half-yearly income of the assessee. Persons whose half-yearly income does not exceed Rs. 600 in the city of Madras and Rs. 300 in the mofussil are exempt from the tax. Assesseees are divided on the basis of their income into 10 classes, and the maximum tax payable by each class has been fixed by statutory rule issued by the State Government with the approval of both the Houses of the Legislature on progressive scales as under:—

Class	Half-yearly income	Maximum half-yearly tax	Minimum half-yearly tax in the case of village panchayats
1	2	3	4
I	More than Rs. 15,000	Rs. 125	Rs. 100
II	More than Rs. 12,000 but not more than Rs. 15,000	100	75
III	More than Rs. 9,000 but not more than Rs. 12,000	75	50
IV	More than Rs. 6,000 but not more than Rs. 9,000	50	25
V	More than Rs. 4,800 but not more than Rs. 6,000	25	12
VI	More than Rs. 3,000 but not more than Rs. 4,800	12	6
VII	More than Rs. 1,800 but not more than Rs. 3,000	6	4
VIII	More than Rs. 1,200 but not more than Rs. 1,800	4	2
IX	More than Rs. 600 but not more than Rs. 1,200	2	1
X	More than Rs. 300 but not more than Rs. 600	1	0

In the city of Madras, class X is not taxed. With this exception, the maximum rates are applicable to all municipalities, district boards and panchayats. In the case of village panchayats alone, minimum rates of the tax of the several classes have been laid down. All assesses are required by local authorities to furnish to them a return of their half-yearly income, but the assessee is not compelled to submit their detailed accounts to the local authorities. If the executive authority of the local body considers in any case that the return of income is not a correct one, he fixes the income according to his own estimate. All employers are required by law to furnish to local authorities, on requisition, returns of the salary paid by them to each of their employees liable to profession tax.

Where a person or company transacts business exclusively in a single municipality and is an income-tax assessee, one-half of the income of the person or company computed for the purposes of income-tax assessment for the year comprising the half-year concerned shall be taken by the municipality as his or its income assessable to profession tax for the half-year. Where the income is not so ascertainable or the person or company is not an assessee to income-tax or transacts business in more than one municipality, the income for purposes of assessment to profession tax is calculated at the percentages of his or its turnover of business in the municipality given in the following table. If in any case the income so calculated is less than the minimum sum specified in column (3) of the table, the percentage shall be enhanced to such a rate as would yield such minimum sum.

	Percentage	Minimum Rs.
Where the turnover of business exceeds Rs. 12 lakhs	1	18,000
Where the turnover of business exceeds Rs. 6 lakhs but does not exceed Rs. 12 lakhs.	1.5	12,000
Where the turnover of business exceeds Rs. 3 lakhs but does not exceed Rs. 6 lakhs.	2	9,000
Where the turnover of business exceeds Rs. 1,50,000 but does not exceed Rs. 3 lakhs.	3	6,000
Where the turnover of business does not exceed Rs. 1,50,000.	4	..

As soon as the maximum limit for profession tax was increased from Rs. 50 to Rs. 250 in the Constitution of India, the Government of Madras enhanced correspondingly with effect from 1st April 1950 the maximum rates of the tax payable by all classes of assessee.

Several municipalities in the two States levy profession tax at the revised maximum rates shown above. Other municipalities levy the tax at lower rates, i.e., at three-fourths or other proportion of the maximum rates. The Corporation of Madras levies the tax at about 70 per cent. of the said maximum rates.

Several district boards in Madras gave up the levy of profession tax as they found it difficult and costly for them to employ the necessary special collection staff. The system of collection of the tax by district boards through the agency of village officers of the Government Revenue Department on a commission basis was also tried, but proved a failure. In 1952-53, the number of district boards which levied the tax and the total income derived by them were:—

State	Total No. of district boards in the State	No of district boards which levied the tax in 1952-53	Income from the tax in 1952-53 (in lakhs of Rs.)
Madras . . .	13	5	1.52
Andhra . . .	11	8	0.65

Under the Madras Village Panchayats Act, 1950 (which applies to the Andhra State also), the levy of profession tax by all village panchayats is compulsory. Though the Act came into force on 1st April 1951, most minor or class II panchayats were reluctant to levy the tax and commenced to collect the tax only in 1953-54. In most small villages, there are no persons liable to pay profession tax except one or two elementary school teachers and petty shopkeepers. The Government of Madras are considering, it is understood, the question of making the levy of profession tax optional for village panchayats.

Companies Tax.—In the City of Madras, companies are assessed to the tax on companies and not to profession tax. The tax on companies is levied on the basis of the paid-up capital of the companies and ranges from Rs. 30 per half-year for companies whose paid-up capital is less than Rs. 1 lakh to Rs. 1,000 per half-year for companies whose paid-up capital is Rs. 20 lakhs or more. It is not possible under the Constitution for other municipal corporations or municipalities in any State to levy this tax newly at similar rates.

PUNJAB

In the Punjab, only four out of 61 municipal committees and three out of the 33 town committees levied profession tax in 1951-52. The income of these municipal and town committees from this source was Rs. 14,318 in 1951-52.

All district boards in this State levy profession tax. Their income from this source was Rs. 11.84 lakhs in 1951-52 and Rs. 14.13 lakhs in 1952-53. The Government has laid down a model schedule of rates which has been adopted by all the district boards in the State. The tax is not leviable on co-operative societies, or any person who is mainly dependent on agriculture for livelihood or is a widow or whose income does not exceed Rs. 400 per annum. It appears that agricultural income is liable to the tax except in the case of persons mainly dependent on agriculture for livelihood. A flat rate of tax of Rs. 3 per year is levied in respect of several specified small professions such as country shoe maker, cobbler, mat manufacturer, fisher, fruit and vegetable seller, juggler, washerman, water-carrier, etc. In respect

of other professions, the tax is leviable on each class on the basis of income according to the following scales:—

Serial No. of class	Annual income of the class	Tax per year
		Rs.
1	Exceeding Rs. 400 but not exceeding Rs. 500	7
2	Exceeding Rs. 500 but not exceeding Rs. 600	10
3	Exceeding Rs. 600 but not exceeding Rs. 700	13
4	Exceeding Rs. 700 but not exceeding Rs. 800	16
5	Exceeding Rs. 800 but not exceeding Rs. 900	20
6	Exceeding Rs. 900 but not exceeding Rs. 1,000	24
7	Exceeding Rs. 1,000 but not exceeding Rs. 1,200	28
8	Exceeding Rs. 1,200 but not exceeding Rs. 1,400	33
9	Exceeding Rs. 1,400 but not exceeding Rs. 1,600	38
10	Exceeding Rs. 1,600 but not exceeding Rs. 1,800	44
11	Exceeding Rs. 1,800 but not exceeding Rs. 2,000	50
12	Exceeding Rs. 2,000 but not exceeding Rs. 2,500	56
13	Exceeding Rs. 2,500 but not exceeding Rs. 3,000	63
14	Exceeding Rs. 3,000 but not exceeding Rs. 3,500	70
15	Exceeding Rs. 3,500 but not exceeding Rs. 4,000	80
16	Exceeding Rs. 4,000 but not exceeding Rs. 5,000	90
17	Exceeding Rs. 5,000 but not exceeding Rs. 6,000	105
18	Exceeding Rs. 6,000 but not exceeding Rs. 7,000	120
19	Exceeding Rs. 7,000 but not exceeding Rs. 8,000	140
20	Exceeding Rs. 8,000 but not exceeding Rs. 9,000	160
21	Exceeding Rs. 9,000 but not exceeding Rs. 10,000	180
22	Exceeding Rs. 10,000	200

In the case of teachers of all schools, the following lower rates are levied:

<i>Income per annum</i>	<i>Rate of tax</i>
For emoluments upto Rs. 1,200 per annum	Rs. 5 per annum
For emoluments upto Rs. 1,201 per annum to Rs. 1,500 per annum.	Rs. 8 per annum
For emoluments upto Rs. 1,501 per annum to Rs. 1,800 per annum.	
For emoluments upto Rs. 1,801 per annum to Rs. 2,100 per annum.	Rs. 17 per annum
For emoluments upto Rs. 2,101 per annum to Rs. 2,400 per annum.	Rs. 23 per annum

HYDERABAD

The Hyderabad and Secunderabad Corporations, most of the city and town municipalities and panchayats in the State levy profession tax. The tax is levied at a flat rate for each profession. The maximum profession tax leviable by a village panchayat in the State on any person is Rs. 10 per annum. The State Government has fixed the

following maximum rates of tax payable in respect of each profession in municipalities.

	Maximum rate 'per annum Rs.
1 (a) Barristers, Advocates, Government Pleaders, having private practice.	60
(b) Pleaders (including 1st class pleaders)	30
(c) Attorneys and Solicitors	30
2 Owners of mills, ware-houses, printing presses, oil-presses, cotton presses and other presses.	200
3 Carrying on business as a company	100
4 Bankers, money-lenders, money-changers, pawn-brokers, and abkari renters.	200
5 Wholesale and retail traders, auctioneers, manufacturers, contractors, owners of ships and boats and commission agents.	100
6 Brokers, dealers in securities, shares or bills of exchange	50
7 (a) Clinics, nursing homes and private hospitals	60
(b) Private practitioners, Unani Hakims, Vaidyas and Homoeopaths.	30
8 Architects and Civil Engineers	60
9 Owners and farmers of markets and toll farmers	24
10 Keepers of hotels, lodging houses, boarding houses, and billiard saloons.	100
11 Editors and proprietors and newspapers	50
12 Professional artists, photographers, actors, dancers, musicians.	24
13 Owners or managers of circuses, cinemas or theatres	200
14 Dealers in animals or vehicles and owners of stables and hackney carriages.	12
15 Artisans	6
16 Dentists, veterinary surgeons and workshops	30
17 Masons and surveyors	12

All servants and pensioners of Government and all employees and pensioners of the municipal committees, Jagirs, etc. are exempt from the tax.

TRAVANCORE-COCHIN

Profession tax is levied by the Trivandrum Municipal Corporation, municipalities and panchayats in this State. In Trivandrum city, the maximum rate leviable is Rs. 250 per half year though slightly lower rates are actually in force. The tax is assessed on the basis of net income. The maximum rate of the tax leviable in other municipalities in the Travancore area is Rs. 275 per person per half year. Most of these municipalities levy the tax at the maximum rates. In the Cochin area, the tax is levied on a slab system for incomes of Rs. 2,000 or above per mensem.

Panchayats in this State levy the tax at a flat rate of 4 annas per Rs. 100 of income subject to the maximum of Rs. 125 per person per half year. In this State as much as 29.8 per cent. of the total revenue of village panchayats is derived from profession tax.

Companies tax.—This tax instead of profession tax is levied by the city corporation of Trivandrum on companies which come within the

definition of the Travancore Companies Act, 1914. On other companies only profession tax is levied. The rates of the tax range from Rs. 30 for a paid up capital of less than Rs. 1 lakh to Rs. 1,000 for a paid up capital of Rs. 20 lakhs or more. Companies, the head office or a branch or principal office of which is not in the city, are assessed on the basis of gross income received in or from the city, the rates varying proportionately from Rs. 25 to Rs. 1,000.

The municipalities in the Cochin area also levy the companies tax on companies as defined in the Indian Companies Act, 1913. The maximum tax leviable is Rs. 250 per half-year for a paid up capital of not less than Rs. 10 lakhs.



STATISTICAL APPENDICES

STATEMENTS RELATING TO LOCAL TAXES

सत्यमेव जयते

STATISTICAL APPENDIX I Local Bodies in India

State	Municipalities and Local Boards			Remarks
	Municipal Corporation	small town committees etc.	Others	
			District local boards	Village Panchayats
PART A				
1. Andhra	..	35	11	3,500*
2. Assam	..	23	15	94
3. Bihar	1	54	17	781
4. Bombay	3	219	27	5,636
5. Madhya Pradesh	2	112	96(†)	6,800 (†)
6. Madras	1	61	13	4,592
7. Orissa	..	20(†)	6	686 (†)
8. Punjab	..	61(§)	12	6,765 (§)
9. Uttar Pradesh	..	120(§§)	49	36,139 (§§)
10. West Bengal	1	86	13	1,784
PART A TOTAL	8	791	163	66,777
PART B				
11. Hyderabad	2	140	16	1,001

*The exact number has not been reported. This is an approximate figure.

(†) In Madhya Pradesh District local boards have been abolished and in their place Janapada Sabhas have been established.

(†) In Orissa in addition there are 6 notified area councils and one notified area committee.

(§) In addition there are 33 small town committees in Punjab.

(§§) In addition there are 37 notified areas and 265 small town committees in Uttar Pradesh.

12. Madhya Bharat	..	84	..	..	4,116
13. Mysore	I	109	9	..	10,409
14. PEPSU	..	21(*)	..	..	2,800
15. Rajasthan	..	139	8	..	..
16. Saurashtra	..	80	..	..	1,507
17. Travancore-Cochin	I	24	..	..	169
PART B TOTAL	4	597	33	..	20,016

PART C

18. Ajmer	..	5	..	..	8
19. Bhopal	..	2	..	..	..
20. Bilaspur	..	..	..	..	..
21. Coorg	..	6	..	..	3
22. Delhi	..	2	..	..	..
23. Himachal Pradesh	..	11	..	..	153
24. Kutch	..	..	..	..	..
25. Manipur	..	..	..	..	No statutory Panchayats
26. Tripura	..	..	..	..	..
27. Vindhya Pradesh	..	12	..	..	61
PART C TOTAL	..	38	..	..	225
TOTAL FOR ALL STATES	12	1,426	196	96	87,018

(*) In addition there are 37 small town committees in PEPSU.

Notified areas and small town committees (total—379).

STATISTICAL

Showing the revenue structure of village panchayats of a few sources of

Serial No.	Name of States and the total number of panchayats in the States	Sources of revenue	Income during	
			1947-48	1948-49
1	2	3	4	5
PART A STATES				
1.	Punjab (No. of Panchayats 6765)	Taxes	1,49,681	2,98,872
		Fees and fines	46	50,615
		Grants	35,987	2,42,251
		Miscellaneous	58,428	1,50,501
		TOTAL	2,44,142	7,42,239
2.	West Bengal (No. of Union Boards 1784)	Taxes	35,66,240	37,91,151
		Fees and fines	1,70,461	1,99,536
		Grants	63,309	49,431
		Miscellaneous	10,08,977	10,90,472
		TOTAL	48,08,987	51,30,590
3.	Madras (No. of Panchayats 4592)	Taxes	18,44,784	21,02,237
		Fees and fines	2,73,790	80,858
		Grants	9,32,385	12,60,755
		Miscellaneous	10,95,526	10,44,483
		TOTAL	41,46,485	44,88,333
4.	Bombay (No. of Panchayats 5636)	Taxes	..	..
		Fees and fines	..	..
		Grants	..	..
		Miscellaneous	..	..
		TOTAL	..	..
5.	Uttar Pradesh (No. of Panchayats 36139)	Taxes	..	..
		Fees and fines	..	..
		Grants	..	..
		Miscellaneous	..	..
		TOTAL	..	..

APPENDIX 2

States and relative importance of the different panchayat revenues

1947-48 to 1952-53 (In Rupees)				Proportion of individual sources of income to total income during the latest year	Income per panchayat during the latest year	
1949-50	1950-51	1951-52	1952-53			
6	7	8	9	10	11	
				(In percentages)	Rs. A. P.	
4,90,945	6,06,425	7,17,829	..	19.5	106	1 9
37,565	86,275	87,410	..	2.5	12	14 8
1,35,099	3,78,565	5,08,573	..	13.9	75	0 5
2,81,673	2,33,915	23,52,073	..	64.1	347	10 10
9,45,282	13,05,180	36,65,885	..	100.0	541	14 2
..	..	..	..	73.9	2,125	1 3
..	..	..	..	3.8	111	13 6
..	..	..	..	1.0	27	8 0
..	..	..	..	21.3	611	4 0
..	..	..	..	100.0	2,875	10 9
29,21,210	16,40,043	..	..	55.2	357	2 2
4,53,163	34,390	..	..	1.1	7	6 4
12,37,794	..	..	..	..	..	..
8,89,009	12,98,500	..	..	43.7	282	11 2
55,01,176	29,72,933	..	..	100.0	647	1 7
..	34,00,000	85,00,000	100,00,000	63.1	1,774	4 11
..	..	..	..	..	..	..
..	..	..	..	..	..	..
..	..	..	..	..	..	..
..	68,00,000	123,00,000	158,00,000	100.0	2,803	6 5
..	38,48,451	39,07,720	44,01,054	62.76	121	14 5
..	6,20,565	12,75,422	11,28,838	13.61	31	3 2
..	..	..	..	..	..	..
..	17,16,784	9,45,228	20,35,416	23.63	56	5 1
..	61,85,800	61,28,370	75,65,308	100.0	209	6 8

STATISTICAL
Showing the revenue structure of village panchayats of a few sources of

1	2	3	4	5
6.	Bihar (No. of Panchayats 781)	Taxes Fees and fines Grants Miscellaneous TOTAL . . . . .	.. .. .. .. ..	.. .. .. .. ..
PART B STATES				
7.	Mysore (No. of Panchayats 10409)	Taxes Fees and fines Grants Miscellaneous TOTAL . . . . .	.. .. .. .. ..	10,99,781 12,132 10,65,520 2,08,056 23,85,489
8.	Saurashtra (No. of Panchayats 1507)	Taxes Fees and fines Grants Miscellaneous TOTAL . . . . .	.. .. .. .. ..	.. .. .. .. ..
9.	Hyderabad* (No. of Panchayats 1021)	Taxes Fees and fines Grants Miscellaneous TOTAL . . . . .	.. .. .. .. ..	.. .. .. .. ..
10.	Travancore-Cochin (No. of Village Panchayats 169).	Taxes Fees and fines Grants Miscellaneous TOTAL	47,984 6,180 80,963 5,026 1,40,153	67,852 9,943 1,69,200 5,286 2,52,281
PART C STATES				
11.	Himachal Pradesh (No. of Panchayats 153)	Taxes Fees and fines Grants Miscellaneous TOTAL . . . . .	.. .. .. .. ..	.. .. .. .. ..

*Though the total number of panchayats in the State is 1021 the data presented herein

APPENDIX 2—contd.

States and the relative importance of the different
panchayat revenues—contd.

6	7	8	9	10	11
				(In percentage)	Rs. A. P.
..	16,066	28,935	70,502	29.8	90 4 4
..	17,314	31,328	53,455	22.7	68 7 0
..	3,407	8,080	10,336	4.4	13 4 2
..	46,389	93,696	1,01,494	43.1	129 15 2
..	83,176	1,62,039	2,35,807	100.0	301 14 8
19,66,369	11,76,888	11,53,781	11,60,032	63.0	111 7 1
10,325	12,975	13,511	11,056	0.6	1 1 0
7,01,436	5,82,823	7,16,664	5,65,770	30.7	54 5 8
1,14,589	1,02,046	1,24,818	1,06,331	5.7	10 3 2
27,92,719	18,74,732	20,08,774	18,43,189	100.0	177 1 2
..	47,598	81,443	..	4.8	54 0 7
..	2,800	11,846	..	0.7	7 13 9
..	6,55,396	14,92,261	..	87.7	990 3 6
..	59,944	1,16,009	..	6.8	76 15 8
..	7,65,738	17,01,559	..	100.0	1,129 1 7
..	..	..	3,08,415	36.1	891 6 5
..	..	..	..	..	..
..	..	..	5,45,527	63.9	1,576 11 2
..	..	..	..	..	..
..	..	..	8,53,942	100.0	2,468 0 0
51,412	1,17,547	1,56,858	..	25.8	928 2 7
11,453	11,770	16,218	..	2.6	95 15 4
3,50,725	3,99,341	4,24,988	..	69.9	2,514 11 6
4,521	6,932	10,704	..	1.7	63 4 3
4,18,111	5,35,590	6,08,768	..	100.0	3,602 2 10
..	..	..	..	..	..
10,106	3,431	5,972	11,900	100.0	77 12 3
1,014	4,556	7,070	..	..	..
..	..	..	..	..	..
11,120	7,987	13,042	11,900	100.0	77 12 3

relates to 346 panchayats only.

STATISTICAL APPENDIX 3*

Showing the absolute and the relative importance of the main panchayat taxes and the role of the individual taxes in the tax structures of the panchayats of a few States

State	Year	Income from individual taxes and their proportion to total income from taxes																
		Annual income from taxes per panchayat (In Rs.)		General Property tax		Service Tax		Profession tax		Tax on animals and vehicles								
		Amount (In Rs.)	Proportion to total income from taxes (percentage)	Amount (In Rs.)	Proportion to total income from taxes (percentage)	Amount (In Rs.)	Proportion to total income from taxes (percentage)	Amount (In Rs.)	Proportion to total income from taxes (percentage)	Amount (In Rs.)	Proportion to total income from taxes (percentage)							
I	2	3	4	5	6	7	8	9	10	11								
PART A																		
Assam	.	.	.	1952-53	1,455	0 0	530	0 0	36.4	..	..	..	414	0 0	28.5			
Bihar	.	.	.	1952-53	90	4 4	65	2 6	72.2	..	..	16 7 8	17.8	8 10 2	10.0			
West Bengal	.	.	.	1952-53	3,366	0 0	3,366	0 0	100.0	..	..	..	..	..	..			
Bombay	.	.	.	1952-53	15,370	0 0	8,386	0 0	54.6	2,490	0 0	16.2	45	0 0	0.3	27	0 0	0.2
Punjab	.	.	.	1951-52	107	0 0	107	0 0	100.0	..	..	..	..	..	..	..	..	..
Uttar Pradesh	.	.	.	1952-53	663	0 0	259	0 0	39.1	..	..	51	0 0	7.7	..	..	..	..
Madras	.	.	.	1952-53	15,254	0 0	7,698	0 0	50.5	1,252	0 0	8.2	1,344	0 0	8.8	473	0 0	3.1

STATISTICAL APPENDIX 3*—contd.

Showing the absolute and the relative importance of the main panchayat taxes and the role of the individual taxes in the tax structures of the panchayats of a few States—contd.

Income from individual taxes and their proportion to total income from taxes									
State	Year	Octroi		Tolls		Theatre tax		Tax on land Revenue Land Cess, and Other Taxes	
		Amount (In Rs.)	Proportion to total income from taxes (percentage)	Amount (In Rs.)	Proportion to total income from taxes (percentage)	Amount (In Rs.)	Proportion to total income from taxes (percentage)	Amount (In Rs.)	Proportion to total income from taxes (percentage)
1	2	12	13	14	15	16	17	18	19
PART A									
Assam	. . . 1952-53	..	..	74 0 0	5.1	..	..	437 0 0	30.0
Bihar	. . . 1952-53	..	..	..	..	..	..	..	..
West Bengal	. . . 1952-53	..	..	..	..	..	..	..	..
Bombay	. . . 1952-53	3,762 0 0	24.5	..	..	270 0 0	1.8	391 0 0	2.5
Punjab	. . . 1951-52	..	..	..	..	..	..	..	..
Uttar Pradesh	. . . 1952-53	..	..	..	..	..	..	353 0 0	53.3
Madras	. . . 1952-53	136 0 0	0.9	..	..	2,994 0 0	7.5	1,357 0 0	8.9

PART B

Hyderabad . . .	Annual average for 1951-54 .	..	..	..	..	..	94 0 0	9.2
Mysore . . .	1952-53	..	..	..	..	..	98 0 0	10.3
Saurashtra . . .	1951-52	49 13 1	92.2	..	0 3 8	0.4	1 6 6	2.6
Travancore-Cochin . . .	1951-52	..	..	..	..	..	606 0 0	65.3
PART C								
Vindhya Pradesh . . .	1952-53	..	..	131 0 0	12.8	..	587 0 0	57.3

*This table is compiled from the figures supplied by select village panchayats in different States in response to a questionnaire issued by the Commission, except in the case of Travancore-Cochin, Saurashtra and Bihar where the figures were supplied by the State Governments.

STATISTICAL

Showing the revenue structure of the District Boards of the States
different States (during the latest

State	Latest year for which data is available	No. of district boards in the State	Popula- tion residing within the juris- diction of the district boards in the various States (In lakhs)	Total income from all sources (In lakhs of Rs.)	Income from taxes	
					Amount (In lakhs of Rs.)	Propor- tion total income (Percen- tage)
1	2	3	4	5	6	7
Assam	1950-51	15	72.54	52.16	25.37	50.5
Bihar	1950-51	17	361.57	432.75	145.18	33.5
Bombay	1952-53	27	242.0	241.0	133.36	55.2
Madras (including Andhra)	1951-52	25	495.89	908.29	397.89	43.8
Orissa	1951-52	6	94.04	66.69	17.05	25.6
Punjab	1951-52	12	103.79	251.95	76.12	30.2
Uttar Pradesh	1951-52	49	538.11	626.82	153.73	24.8
West Bengal	1948-49	13	170.76	86.43	38.94	45.1
Hyderabad	1952-53	16	161.44	34.74	31.33	90.2
Mysore	1952-53	9	77.57	62.42	22.22	35.6

APPENDIX 4

and the relative importance of the various sources of revenue in the year for which data is available)

Income from fees and fines		Income from Government grants		Miscellaneous income		Income Taxation per District Board	Income Taxation per District Board	Income Taxation per capita	Income Taxation per capita
Amount (In lakhs of Rs.)	Proportion to total income (Percentage)	Amount (In lakhs of Rs.)	Proportion to total income (Percentage)	Amount (In lakhs of Rs.)	Proportion to total income (Percentage)	(In lakhs of Rs.)	(In lakhs of Rs.)		
8	9	10	11	12	13	14	15	16	17
								P.	P.
4.88	9.4	20.92	40.1	..	..	3.5	1.9	11 6 0 5	10
..	..	237.29	54.8	..	..	25.4	8.5	1 3 2 0 6	5
..	..	120.61	44.6	..	..	8.9	4.9	0 15 10 0 8	10
128.62	14.2	285.67	31.5	96.11	10.5	36.3	15.9	1 14 0 0 12	9
3.29	4.9	43.52	65.3	2.83	4.2	11.1	2.8	0 11 4 0 2	11
45.36	18.0	106.02	42.1	25.02	9.9	20.9	6.3	2 6 5 0 11	2
136.77	21.82	336.33	53.6	..	..	12.7	3.2	1 2 9 0 4	5
0.30	0.3	37.88	43.8	9.30	10.8	6.6	2.9	0 8 1 0 3	4
0.38	1.1	..	..	3.03	8.7	2.2	1.9	0 3 4 0 3	0
12.11	19.4	10.96	17.5	17.12	27.4	6.9	2.4	0 12 10 0 4	7

State	Latest year for which data is available
PART A STATES	
1. Assam	1950-51
2. Bihar	1949-50 } *
3. Bombay	1950-51 }
	1952-53 }
4. Madras	1951-52
5. Orissa	1951-52
6. Punjab	1951-52
7. Uttar Pradesh	1951-52
8. West Bengal	1948-49
PART B STATES	
9. Hyderabad	1952-53
10. Average per capita for the 9 States	

*The Municipal figures relate to the year 1949-50 but the District Board figures are for

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APPENDIX No. 5

Formal incidence per capita of revenue during the latest year		Formal incidence per capita of tax revenue during the latest year	
Municipal Boards	District Boards	Municipal Boards	District Boards
Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.
7 3 4	0 11 6	3 15 10	0 5 10
6 6 10	1 3 2	3 2 6	0 6 5
13 12 10	0 15 10	9 8 0	0 8 10
12 9 0	1 14 0	6 7 6	0 12 9
7 2 3	0 11 4	3 13 5	0 2 11
11 10 8	2 6 5	6 15 3	0 11 2
11 6 5	1 2 9	7 6 5	0 4 5
6 11 10	0 8 1	4 9 3	0 3 4
2 12 10	0 3 4	2 3 2	0 3 0
8 13 7	1 1 5	5 5 6	0 6 6

1950-51.

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STATISTICAL

*Showing the tax structures of the District Boards of the States and
(during the latest year for*

State Part A	Latest Year	Income from Taxa- tion	Land Cess or Local Rate		Taxes on Cir- cumstances and Property	
			Amount	Pro- portion to total tax revenue (percentage)	Amount	Pro- portion to total tax revenue (percentage)
1	2	3	4	5	6	7
1. Assam	1950-51	25.37	13.71	54.04	..	..
2. Bihar	1950-51	145.18	145.18	100.00	..	..
3. Bombay	1952-53	133.00	105.39 15.80	79.24 11.88	..	..
				91.12		
4. Madras	1951-52	397.89	249.62	62.74	..	..
5. Orissa	1951-52	17.05	16.12	94.55	..	..
6. Punjab	1951-52	76.12	63.43	83.33	0.17	0.22
7. Uttar Pradesh	1951-52	153.73	133.82	87.05	19.91	12.95
8. West Bengal	1948-49	38.94	35.42	90.96	..	..
9. Hyderabad	1952-53	31.33	31.26	99.78	..	..

* Represents the compensation paid for loss of revenue consequent on abolition of

† This figure includes income from duty on transfer of immovable property which alone

APPENDIX 6

the relative importance of the individual taxes in the different States which data are available)

(In lakhs of Rupees)

Profession tax		Taxes on animals and vehicles		Octroi and Terminal tax		Tolls		Miscellaneous taxes	
Amount	Pro-portion to total tax revenue (percentage)	Amount	Pro-portion to total tax revenue (percentage)	Amount	Pro-portion to total tax revenue (percentage)	Amount	Pro-portion to total tax revenue (percentage)	Amount	Pro-portion to total tax revenue (percentage)
8	9	10	11	12	13	14	15	16	17
..	..	3.51	13.84	..	..	1.73	6.82	6.42	25.31
..	..	..	..	..	..	..	..	..	..
1.94	1.46	0.55	0.41	6.80	5.11	2.89	2.17	..	..
2.10	0.53	—	—	..	..	37.49*	9.42	108.68†	27.31
0.05	0.29	..	—	..	..	0.18	1.00	0.71	4.16
11.84	15.57	0.44	0.58	..	..	..	..	0.11	0.14
..	..	..	..	..	..	..	..	..	..
..	..	..	..	..	..	3.52	9.04	..	..
0.05	0.16	..	..	..	..	..	..	0.02	0.06

tolls.

is to the tune of Rs. 106 lakhs.

STATISTICAL APPENDIX 7 Revenue of Municipalities from different States

State	Latest year for which figures are available	Total income from all sources (In lakhs of Rs.)	Total income from Taxation		Grants-in-aid		Total Non-tax Revenue (other than Grants-in-aid)	
			Amount (In lakhs of Rs.)	Percentage to total income	Amount (In lakhs of Rs.)	Percentage to total income	Amount (In lakhs of Rs.)	Percentage to total income
PART A								
Assam	1950-51	27.49	15.24	55.6	2.37	8.5	9.88	35.9
Bihar	1949-50	101.33	51.96	51.3	23.22	22.9	26.15	25.8
Bombay	1952-53	666.00	458.46	68.8	111.44	16.7	96.10	14.5
Madhya Pradesh	1951-52	230.37	156.50	67.93	19.99	8.67	53.88	23.38
Madras	1951-52	688.89	397.17	57.7	88.73	12.9	202.99	29.4
Orissa	1951-52	21.85	11.74	53.7	5.48	25.1	4.63	21.2
Punjab	1951-52	247.20	140.64	56.9	10.21	4.2	96.35	38.9
Uttar Pradesh	1951-52	715.32	430.67	60.2	108.57	15.2	176.08	24.6
West Bengal	1948-49	152.11	103.31	68.0	27.34	18.0	21.46	14.0
PART B								
Hyderabad	1952-53	72.40	55.35	76.5	3.70	5.1	13.35	18.4
Madhya Bharat	1952-53	85.26	63.25	74.2	3.56	4.2	18.45	21.6
Mysore	...	..	..	..	..	..	..	..

PEPSU	1952-53	47.39	40.48	85.4	0.57	1.2	6.34	13.4
Saurashtra	1951-52	104.80	103.08	98.4	1.72	1.6	..	..
Travancore-Cochin	1951-52	43.39	27.52	63.4	4.14	9.6	11.73	27.0
PART C								
Bhopal	1951-52	12.65	9.11	72.0	1.57	12.4	1.97	15.6
Coorg	1951-52	3.11	2.40	77.4	0.17	5.5	.54	17.1
Delhi	1952-53	320.41	182.93	57.1	12.29	3.8	125.19	39.1
Himachal Pradesh	1952-53	7.80	7.06	90.5	0.65	8.3	.09	1.2
Vindhya Pradesh	1951-52	7.61	.82	9.7	4.99	59.1	1.81	31.2

STATISTICAL
Tax income of Municipalities

Name of State	Latest year for which figures are available	Total income from Rates & Taxes (In lakhs of Rs.)	Total income from General property tax (In lakhs of Rs.)	Percentage to Total Tax Revenue	Income from service tax (In lakhs of Rs.)	Percentage to Total Tax Revenue
1	2	3	4	5	6	7
PART A						
Assam . . .	1950-51	15.24	5.67	37.2	8.87	58.2
Bihar . . .	1949-50	51.97	26.68	51.3	24.27	46.7
Bombay . . .	1952-53	458.46	97.96	21.37	80.17	17.48
Madras (Combined State) . . .	1951-52	397.17	108.69	27.31	147.55	37.09
Madhya Pradesh . . .	1951-52	156.50	12.70	8.1	39.41	25.18
Orissa . . .	1951-52	11.74	4.40	37.5	4.32	36.8
Punjab . . .	1951-52	140.64	19.33	13.7	2.13	1.5
Uttar Pradesh . . .	1949-50	365.87	43.27	11.9	46.80	12.81
West Bengal . . .	1948-49	103.31	57.50	55.6	34.59	33.4
PART B						
Hyderabad . . .	1952-53	55.35	23.25	42.0	3.63	6.5
Madhya Bharat . . .	1952-53	66.29	12.95	20.4	..	..
PEPSU . . .	1952-53	40.48	..	..	..	..
Saurashtra . . .	1951-52	103.18	42.16(a)	40.91	..	..
Travancore-Cochin . . .	1951-52	27.52	10.58	38.4	5.63	20.4
PART C						
Bhopal . . .	1951-52	9.11	0.55	6.0	1.58	17.3
Coorg . . .	1951-52	2.40	0.29	12.5	0.01	0.42
Delhi . . .	1952-53	263.49	57.20	31.2	109.18	59.6
Himachal Pradesh . . .	1952-53	7.06	0.06	0.8	0.19	2.6
Vindhya Pradesh . . .	1951-52	0.82	0.22	26.78	0.16	19.51
TOTAL . . .		2,276.60	523.46		508.49	

(a) Includes other taxes, but excludes Octroi, terminal taxes and Tolls.

(b) Includes terminal tax also.

(c) Toll Compensation paid by Government.

APPENDIX 8

in each State

Income from Local Fund Cesses (In lakhs of Rs.)	Percentage to Total Tax Revenue	Income from Octroi (In lakhs of Rs.)	Percentage to Total Tax Revenue	Income from Terminal taxes (In lakhs of Rs.)	Percentage to Total Tax Revenue	Income from Tolls (In lakhs of Rs.)	Percentage to Total Tax Revenue
8	9	10	11	12	13	14	15
..	..	..	..	..	..	..	..
..	..	..	..	..	..	..	..
..	..	213.54	46.58	29.74	6.48	9.83	2.14
..	..	..	..	..	..	25.94 (c)	6.53
0.46	0.29	74.48	47.59	12.58	8.03	3.46	2.21
..	..	1.73	14.7	..	..	..	..
0.02	0.01	108.55	77.2	4.74	3.4	1.28	0.9
..	..	137.67	37.84	48.67	13.38	32.43	8.9
..	..	..	..	..	..	2.19	2.1
0.17	0.30	..	..	..	..	9.94	17.9
..	..	29.54	46.7	4.27	6.7	..	..
..	..	40.48	100.0	..	..	..	..
..	..	60.54 (b)	58.73	..	..	0.04	0.04
..	..	..	..	..	..	0.20	0.7
..	..	6.61	72.5	..	..	..	..
..	..	1.77	73.75	..	..	0.03	0.13
..	..	..	..	82.91	45.3	0.14	0.07
..	..	6.65	94.1	..	..	..	..
..	..	0.03	0.36	..	..	..	..
0.65		681.59		182.91		85.48	

STATISTICAL

Tax income of Municipalities

Name of State	Income from taxes on goods and passengers carried by roads & in land water ways (In lakhs of Rs.)	Percentage to Total Tax Revenue	Income from taxes on vehicles & animals & boats (In lakhs of Rs.)	Percentage to Total Tax Revenue
I	16	17	18	19
PART A				
Assam	..	..	0.44	2.9
Bihar	..	..	0.79	1.5
Bombay	..	..	8.57	1.9
Madras (Combined State)	..	..	9.95	2.5
Madhya Pradesh	0.07	0.04	1.80	1.15
Orissa	..	..	0.54	4.5
Punjab	..	..	1.73	1.2
Uttar Pradesh	34.34	9.38	5.34	1.5
West Bengal	..	..	1.77	1.7
PART B				
Hyderabad	..	..	1.57	2.8
Madhya Bharat	..	..	2.21	3.5
PEPSU	..	..	..	..
Saurashtra	..	..	0.44	0.4
Travancore-Cochin	..	..	0.18	0.65
PART C				
Bhopal	..	..	0.35	4.1
Coorg	..	..	0.02	0.4
Delhi	..	..	12.75	6.9
Himachal Pradesh	..	..	0.04	0.6
Vindhya Pradesh	..	..	..	..
TOTAL	34.41		48.49	

(d) Entertainment tax paid by Government.

(e) Chiefly additional stamp duty.

(f) Entertainment tax.

(g) Entertainment fee.

APPENDIX 8—contd.
in each State—contd.

Income from Profession Tax (In lakhs of Rs.)	Percentage to Total Tax Revenue	Income from Theatre Tax (In lakhs of Rs.)	Percentage to Total Tax Revenue	Income from Pilgrim Tax (In lakhs of Rs.)	Percentage to Total Tax Revenue	Income from town improvement & betterment tax (In lakhs of Rs.)	Percentage to Total Tax Revenue	Income from other taxes, cesses & rates (In lakhs of Rs.)	Percentage to Total Tax Revenue
20	21	22	23	24	25	26	27	28	29
0.26	1.7	..	..	..	..	..	..	..	..
..	..	..	..	..	..	..	..	0.23	0.4
1.40	0.3	4.81	1.04	5.00	1.09	..	..	7.44	1.62
19.09	4.8	56.25(d)	14.2	1.28	0.32	0.20	0.05	28.22	7.10
1.88	1.20	..	..	0.10	0.06	..	..	9.56	6.11
0.39	3.2	..	..	..	..	..	..	0.36	3.0
0.14	0.09	..	..	..	..	..	..	2.72	1.9
1.78	0.5	..	..	9.77	2.68	..	..	5.80	1.59
5.58	5.4	..	..	..	..	..	..	1.68	1.6
3.04	5.5	7.69 (f)	13.9	0.18	0.32	..	..	5.88	10.6
0.58	0.9	9.87 (f)	15.6	..	..	..	..	6.87	10.8
..	..	..	..	..	..	..	..	..	..
..	..	..	..	..	..	..	..	..	..
6.60	23.9	4.09(f)	14.8	..	..	..	..	0.24(c)	0.87
..	..	0.02(g)	0.3	..	..	..	..	..	..
0.27	0.11	..	..	..	..	..	..	0.01	0.42
..	..	..	..	..	..	..	..	1.31	0.4
0.02	0.4	..	..	..	..	..	..	0.10	1.6
..	..	..	..	..	..	..	..	0.41	50.0
41.03		82.73		16.33		0.20		70.83	

STATISTICAL APPENDIX 9

Income and Expenditure of Municipalities in the several States

Name of State	No. of Municipalities	Population (In lakhs)	Income and Expenditure (In lakhs of Rs.)			Remarks
			1949-50	1950-51	1951-52	
PART A STATES						
Assam	23	3.82	Income Expenditure 23.78 29.81	27.49 27.54	.. ..	
Bihar	54	16.54	Income Expenditure 101.33 92.85	.. ..	.. ..	
Bombay	219	48.2	Income Expenditure	585.08 588.60	634.08 657.17	
Madhya Pradesh	112	20.23	Income Expenditure 230.37 (a) 193.18 (a)	.. ..	.. ..	(a) Figures for 1951-52.
Madras (including Andhra)	98	54.73	Income Expenditure 601.13 584.87	636.56 642.49	688.89 736.91	
Orissa	20(b)	3.06	Income Expenditure 19.10 23.46	22.50 20.35	21.85 22.34	(b) Figures furnished only for 9 Municipalities as the others were only recently completed.
Punjab	94(c)	21.19	Income Expenditure 201.98 208.53	220.33 218.90	247.20 244.16	(c) Includes 33 small town Committees.
Uttar Pradesh	120	62.79	Income Expenditure 624.71 718.16	655.83 723.65	715.32 728.18	
West Bengal	86	22.57	Income Expenditure 152.11 (d) 151.60 (d)	.. ..	.. ..	(d) Figures for 1948-49.

PART B STATES

Hyderabad . . .	140	25.11	Income Expenditure	43.70 41.91	56.31 49.40	67.12 45.56
Madhya Bharat . . .	84	14.63	Income Expenditure	85.26 (e) 86.91 (e)	.. ..	.. ..
Saurashtra . . .	80	13.12	Income Expenditure	.. ..	95.56 85.07	104.80 110.28
PEPSU . . .	58(f)	6.49	Income Expenditure	.. ..	38.31 35.61	44.66 40.23
Travancore-Cochin . .	24	8.01	Income Expenditure	34.54 20.73	23.70 33.61	43.39 37.09

(e) Figures for 1952-53.

(f) Includes 37 small town committees.

PART C STATES

Bhopal . . .	2	1.02	Income Expenditure	10.60 10.60	11.60 11.60	12.65 12.66
Coorg . . .	6	0.25	Income Expenditure	.. ..	2.68 2.66	3.11 2.46
Delhi . . .	2	12.71	Income Expenditure	243.88 233.13	259.72 258.52	288.76 280.10
Himachal Pradesh . .	11	0.42	Income Expenditure	4.20 2.14	5.79 3.19	6.30 5.80
Vindhya Pradesh . .	12	1.60	Income Expenditure	4.35 2.86	8.19 5.01	7.61 5.28

Average Income and Expenditure of Municipalities

Latest year for which the figures are available	No. of Municipalities (including small town committees where the separate figures are not given for municipalities)	Total income of Municipalities & small town committees also where the separate figures are not given	Average income per municipality	Total expenditure of Municipalities and small town committees where the separate figures are not given	Average expenditure per Municipality
		(In lakhs of Rs.)	(In lakhs of Rs.)	(In lakhs of Rs.)	(In lakhs of Rs.)
		(Population Average in lakhs) of population per Municipality.			
• 1950-51	23	3.82	0.17	27.49	1.19
• 1949-50	54	16.54	0.31	101.33	1.88
• 1952-53	219	48.2	0.22	666.00	3.01
• 1951-52	112	20.23	0.18	230.37	2.06
(hra). 1951-52	98	54.73	0.56	688.89	7.03
• 1951-52	9*	3.06	0.34	21.85	2.43
• 1951-52	94	21.19	0.23	247.20	2.63
• 1951-52	120	62.70	0.52	715.32	5.96
• 1948-49	86	23.57	0.26	152.11	1.77
				27.54	1.19
				92.85	1.72
				581.51	2.66
				193.18	1.72
				736.91	7.52
				22.34	2.48
				244.16	2.59
				728.18	6.07
				151.60	1.76

PART B

10. Hyderabad	.	.	1952-53	140	25.11	0.18	72.40	0.52	57.77	0.41
11. Madhya Bharat	.	.	1952-53	84	14.63	0.17	85.26	1.02	86.91	1.03
12. PERSU	.	.	1952-53	58	6.49	0.11	47.39	0.81	47.77	0.82
13. Saurashtra	.	.	1951-52	80	13.12	0.16	104.80	1.31	110.28	1.38
14. Travancore-Cochin	.	.	1951-52	24	8.01	0.33	43.39	1.81	37.09	1.55

PART C

15. Bhopal	.	.	1951-52	2	1.02	0.51	12.65	6.34	12.65	6.34
16. Coorg	.	.	1951-52	6	0.25	0.04	3.11	0.52	2.46	0.40
17. Delhi	.	.	1952-53	2	12.71	6.35	320.41	160.21	327.21	163.61
18. Himachal Pradesh	.	.	1952-53	11	0.42	0.04	7.80	0.71	5.97	0.54
19. Vindhya Pradesh	.	.	1951-52	12	1.60	0.13	7.61	0.63	5.28	0.44

*Out of 20 Municipalities figures are furnished only for 9.

STATISTICAL APPENDIX II

Incidence of Income and Expenditure in Municipalities in the several States

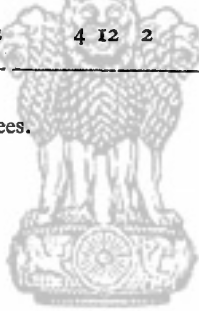
Name of State	Latest year for which figures are available	Incidence of total income per head of population			Incidence of total tax revenue per head of population			Expenditure per head of population		
		Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.
PART A										
Assam	1950-51	7	3	4	3	15	10	7	3	5
Bihar	1949-50	6	6	10	3	2	6	5	9	10
Bombay	1952-53	13	12	10	9	8	0	12	2	0
Madhya Pradesh	1951-52	11	7	8	7	11	3	9	8	0
Madras	1951-52	12	9	0	6	7	6	13	7	5
Orissa	1951-52	7	2	3	3	13	5	7	4	10
Punjab	1951-52	11	10	8	6	15	3	11	8	4
Uttar Pradesh	1951-52	11	6	5	7	6	5	11	9	10
West Bengal	1948-49	6	11	10	4	9	3	6	11	6
PART B										
Hyderabad	1952-53	2	12	10	2	3	2	2	4	10
Madhya Bharat	1952-53	5	13	4	4	5	3	6	12	0
PEPSU	1952-53	(a) 6	7	3	(a) 5	7	1	7	5	0
		(b) 7	6	9	(b) 5	14	1			
Saurashtra	1951-52	7	14	5	7	12	10	8	6	6
Travancore-Cochin	1951-52	5	0	1	3	6	10	4	10	1

STATISTICAL APPENDIX II—*contd.**Incidence of Income and Expenditure in Municipalities in the several States—
contd.*

Name of State	Latest year for which figures are available	Incidence of total income per head of population	Incidence of total tax revenue per head of population	Expenditure per head of population
		Rs. A. P.	Rs. A. P.	Rs. A. P.
PART C				
Bhopal	1951-52	12 10 8	9 4 11	12 6 9
Coorg	1951-52	11 12 10	9 11 2	11 0 0
Delhi	1952-53	25 3 2	20 11 9	25 11 10
Himachal Pradesh	1952-53	18 12 10	4 6 5	14 3 5
Vindhya Pradesh	1951-52	4 12 2	0 8 2	3 4 10

*(a) For Municipalities.

(b) For Small Town Committees.



सत्यमेव जयते

STATISTICAL APPENDIX 12

Showing the various Items of Expenditure for the Municipalities in each State

Name of State	Latest year for which the figures are available	Total expenditure (In lakhs of rupees)	Administration				Service, water drainage, con-servancy, etc.				Medical and public health				Roads and buildings				Miscellaneous including education			
			Amount (In lakhs of rupees)	Percentage to total expenditure	Amount (In lakhs of rupees)	Percentage to total expenditure	Amount (In lakhs of rupees)	Percentage to total expenditure	Amount (In lakhs of rupees)	Percentage to total expenditure	Amount (In lakhs of rupees)	Percentage to total expenditure	Amount (In lakhs of rupees)	Percentage to total expenditure	Amount (In lakhs of rupees)	Percentage to total expenditure	Amount (In lakhs of rupees)	Percentage to total expenditure	Amount (In lakhs of rupees)	Percentage to total expenditure	Amount (In lakhs of rupees)	Percentage to total expenditure
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
PART A STATES																						
Assam	. . . 1950-51	27.54	2.75	9.9	10.72	39.2	1.16	4.2	4.85	17.5	8.06	29.2										
Bihar	. . . 1949-50	92.85	7.84	8.4	51.14	55.1	1.55	1.7	13.67	14.7	18.65	20.1										
Bombay	. . . 1952-53	581.51	90.68	15.63	178.96	30.7	67.67	11.6	90.32	15.6	153.88	26.5										
Madhya Pradesh	. . . 1951-52	193.18	34.29	17.75	60.45	21.29	14.07	7.28	20.00	10.35	64.37	33.32										
Madras	. . . 1951-52	736.91	50.07	6.8	381.10	51.3	91.75	12.7	111.26	15.3	102.73	13.9										
Orissa	. . . 1951-52	22.34	2.34	10.5	9.78	43.8	1.81	8.1	2.94	13.1	5.47	24.5										
Punjab	. . . 1951-52	244.16	27.86	11.4	98.10	40.2	74.08	30.3	24.52	10.1	19.60	8.0										
Uttar Pradesh	. . . 1948-49	571.58	54.84	9.5	260.80	45.6	26.53	4.7	77.89	13.7	151.52	26.5										
West Bengal	. . . 1948-49	151.60	16.92	11.2	81.90	54.0	10.97	7.2	18.71	12.4	23.10	15.2										

PART B STATES

Hyderabad	.	.	.	1952-53	57.77	14.88	25.7	37.10	64.3	..	..	4.10	7.1	1.69	2.9
Madhya Bharat	.	.	.	1952-53	86.91	16.79	17.8	..	..	24.69	25.9	20.74	21.4	24.69	25.9
PEPSU	.	.	.	1952-53	47.77	..	..	..	..	..	..	..	..	47.77	47.8
Saurashtra*	.	.	.	1951-52	110.28	..	..	..	..	..	..	..	..	110.28	..
Travancore-Cochin	.	.	.	1951-52	37.09	7.71	20.8	5.25	14.2	9.31	25.1	8.83	23.7	5.99	16.2

PART C STATES

Bhopal	.	.	.	1951-52	12.66	1.75	13.9	3.41	26.9	3.33	26.5	3.46	27.55	0.71	5.60
Coorg	.	.	.	1951-52	2.46	0.72	26.6	0.70	25.7	0.13	4.7	0.61	22.6	0.30	19.4
Delhi	.	.	.	1952-53	327.21	21.13	6.5	151.39	46.2	28.97	8.8	48.43	14.8	77.29	23.7
Himachal Pradesh	.	.	.	1952-53	5.97	1.43	23.8	2.31	38.9	..	..	1.64	27.4	0.59	9.8
Vindhya Pradesh	.	.	.	1951-52	5.28	3.04	57.7	1.85	35.0	..	..	..	..	0.39	7.3
Total	.	.	.		3315.07	355.04	1334.96	356.02	451.97	817.08					

*Details of expenditure not given.

STATISTICAL APPENDIX 13

Showing the Income and Expenditure of certain selected Municipalities in each State

Name of State	Name of municipalities	Population (In lakhs)	Latest year for which the figures are available	Total income from all sources (In lakhs of rupees)	Total expenditure (In lakhs of rupees)
1	2	3	4	5	6
PART A STATES					
1. Andhra	Chirala . . .	0.36	1952-53	4.84	3.48
	Guntur . . .	1.23	1952-53	10.78	15.83
	Anakapalle . . .	0.40	1952-53	4.79	5.55
2. Assam	Gauhati . . .	1.00	1952-53	4.33	2.94
	Nowgong . . .	0.27	1952-53	4.04	2.58
	Bara . . .	0.11	1951-52	0.98	0.66
3. Bihar	Monghyr . . .	0.73	1952-53	6.24	8.72
	Muzaffarpur . . .	..	1952-53	10.24	8.46
	Sholapur . . .	2.66	1952-53	47.28	43.80
4. Bombay	Bhiwandi . . .	0.26	1952-53	6.55	5.55
	Kolhapur . . .	1.37	1952-53	26.11	35.24
	Gadag Bettigeri Municipal Board	0.66	1952-53	12.04	10.33
	Thana Borough Municipality .	0.50	1952-53	8.91	7.54
	Nasik Borough Municipality .	..	1952-53	22.74	19.63

5. Madhya Pradesh	Baroda	2.11	1952-53	31.14	34.54
	Jalgaon	0.10	1951-52	0.45	0.28
	Belgaum	0.83	1952-53	16.92	19.98
	Satara	0.39	1952-53	5.36	5.31
	Dohad	0.25	1952-53	3.44	3.19
	Sagar	0.67	1952-53	10.99	9.41
	Akola	0.90	1952-53	11.17	10.12
	Bhandara	0.23	1952-53	3.40	3.51
	Betul	0.12	1948-49	1.59	1.68
	Ballarpur	0.12	1952-53	0.67	0.56
	Amaravati	1.04	1952-53	10.80	11.04
	Khandwa	0.52	1952-53	8.58	8.58
6. Madras	Ootacamund	0.41	1952-53	8.85	7.15
	Srivilliputtur	0.40	1952-53	2.39	3.74
	Mayuram	0.43	1952-53	5.96	6.03
	Rajapalayam	0.61	1952-53	2.57	2.51
	Coimbatore	..	1952-53	41.82	35.80
	Nagapatinam	0.58	1952-53	5.50	5.68
	Tuticorin	0.98	1952-53	11.32	11.54
7. Orissa	Sambalpur	0.24	1952-53	3.30	4.02
	Barhampur	0.62	1952-53	4.79	3.90

STATISTICAL APPENDIX 13—contd.
Showing the Income and Expenditure of certain selected Municipalities in each State—contd.

1	2	3	4	5	6
8. Punjab	Anritsar	3.20	1952-53	79.91	85.08
	Kapurthala	0.26	1952-53	1.44	1.21
	Batala	0.51	1952-53	4.66	4.70
9. Uttar Pradesh	Mathura	0.99	1952-53	12.28	13.50
	Allahabad	3.12	1952-53	111.98	54.17
	Roorkee	0.23	1952-53	3.78	3.33
	Banaras	3.47	1952-53	43.17	44.43
	Bareilly	2.05	1952-53	28.24	29.30
	Sidhpur	0.26	1952-53	1.59	1.50
	Rampur	1.34	1952-53	10.52	9.28
	Lucknow	4.45	1952-53	67.00	98.74
10. West Bengal	Howrah	4.34	1952-53	64.37	50.27
PART B STATES					
11. Hyderabad.	Yadgiri	0.22	1952-53	1.64	2.62
	Aurangabad	0.58	1952-53	2.36	2.41
12. Saurashtra	Jamnagar	1.06	1952-53	10.19	17.14
PART C STATES					
13. Ajmer	Ajmer Municipality	1.96	1952-53	28.79	30.77

Pushkar	.	.	.	.	1952-53	0.16	0.20
Kekri	.	.	.	0.10	1952-53	0.79	0.71
Beawar	.	.	.	0.51	1952-53	13.53	9.57
Deoli	.	.	.	0.03	1951-52	0.12	0.13
Delhi	.	.	.	9.74	1952-53	184.09	205.77
New Delhi	.	.	.	2.98	1952-53	136.32	121.44



STATISTICAL APPENDIX 14

Income from taxes of different Corporations—1952-53

(In lakhs of Rupees)

Corporation	Total income from all sources		Tax Revenue		Property tax		Service Tax		Tax on vehicles, animals and boats		Profession Tax		Terminal taxes		Theatre tax	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	Amount	Percent- tage to income	Amount	Percent- tage to total tax revenue	Amount	Percent- tage to total tax revenue	Amount	Percent- tage to total tax revenue	Amount	Percent- tage to total tax revenue	Amount	Percent- tage to total tax revenue	Amount	Percent- tage to total tax revenue	Amount	Percent- tage to total tax revenue
Bombay	958.8	765.66	79.9	361.8	37.73	280.69	29.28	44.31	4.62	..	..	69.92	7.29	8.39	0.88	
Calcutta*	542.5	371.15	68.4	336.7	62.06	..	..	5.31	0.98	28.00	5.16	..	..	..	..	
Madras	231.5	167.13	72.2	84.9	36.68	33.27	14.38	3.35	1.44	5.84	2.52	1.63	0.72	..	..	
Ahmedabad	250.8	218.40	87.1	102.2	46.79	55.37	25.36	7.47	3.42	..	..	51.63	23.64	2.01	0.09	
Poona	112.8	87.43	77.5	29.16	33.35	12.19	13.94	3.45	3.94	..	..	40.48	46.30	1.16	1.32	
Bangalore	75.5	71.90	95.3	9.75	13.61	15.35	21.63	3.23	4.50	1.11	1.55	16.77	23.32	7.14	8.54	
Hyderabad	50.7	41.74	62.6	21.06	50.46	7.24	17.85	4.04	9.68	2.00	4.79	..	..	7.00	16.77	
Jabalpur	30.7	23.89	77.8	..	..	7.09	29.67	0.54	2.27	..	..	16.06	67.22	..	..	
Nagpur	125.9	78.59	62.0	8.00	10.18	25.72	32.73	1.58	2.01	..	..	43.25	55.03	..	..	
Secunderabad	17.8	11.90	67.0	3.75	31.50	5.10	42.88	0.45	3.78	0.75	6.30	..	..	1.16	1.33	
Trivandrum*	9.9	7.05	71.0	3.62	51.38	1.48	21.05	0.01	0.14	0.76	10.83	..	..	..	..	

*The figures in respect of these corporations are for the year 1951-52.

STATISTICAL APPENDIX 15

(In lakhs of Rupees)

Name of Municipal Corporation	1950-51		1951-52		1952-53	
	Total income	Total expenditure	Total income	Total expenditure	Total income	Total expenditure
1	2	3	4	5	6	7
1. Bombay .	781.00	791.89	860.50	876.41	958.85	925.39
2. Calcutta .	484.3	487.7	542.5	574.8	..	..
3. Madras .	190.30	192.77	238.98	223.09	231.54	228.78
4. Poona .	106.07	102.0	115.41	142.03	112.82	119.91
5. Ahmedabad .	164.08	126.04	192.27	139.45	205.38	150.65
6. Bangalore .	63.03	59.58	68.39	65.71	75.46	75.76
7. Hyderabad .	40.44	40.24	39.11	40.59	50.72	52.44
8. Jabalpur .	30.40	34.96	31.94	28.25	30.69	28.83
9. Nagpur .	..	..	108.32	79.22	125.85	108.49
10. Secunderabad	13.75	10.85	14.86	13.49	17.75	12.91
11. Trivandrum .	7.85	6.52	9.92	10.12	..	..
	(For seven months)					

STATISTICAL APPENDIX 16

Table showing the growth in Grants-in-Aid from State Government to Municipalities from 1907-08 to 1946-47

State	1907-08		1925-26		1946-47		Latest year for which figures are available	Grants in the year shown in previous Col.	
	Amount	Percentage to total income	Amount	Percentage to total income	Amount	Percentage to total income		Amount	Percentage to total income
Bombay	.	3.9	23.1	10.4	51.5	11.7	1952-53	111.4	16.7
Bengal	.	3.6	2.2	2.9	18.3	15.8	1948-49	27.3	17.2
Bihar	.	(formed part of Bengal)	2.4	6.8	19.5	24.9	1949-50	23.2	22.9
Madhya Pradesh	.	0.7	5.9	9.8	10.2	6.7	1951-52	19.99	8.67
Madras	.	2.1	28.6	18.1	31.8	8.2	1951-52	88.7	12.9
Orissa	.	(formed part of other provinces)			13.8	62.5	1951-52	5.5	25.1
Punjab	.	0.9	14.6	11.0	5.0*	6.5	1951-52	10.2	4.2
Uttar Pradesh	.	1.1	13.1	8.4	74.0	15.8	1951-52	108.6	15.2

*Relates to the year 1947-48.

STATISTICAL APPENDIX 17
Table showing the Grants from Government for various items in Municipalities

Name of State	Latest year for which figures are available	For Roads & Buildings (In lakhs of Rs.)	For Education (In lakhs of Rs.)	For Medical and Public Health purposes (In lakhs of Rs.)	For other purposes (In lakhs of Rs.)	Total Grant-in-aid
1	2	3	4	5	6	7
PART A STATES						
Assam	1950-51	0.28	0.28	0.10	1.71	2.37
Bihar	1949-50	0.70	8.93	0.13	13.46	23.22
Bombay	1952-53	..	35.04	2.30	74.10	111.44
Madhya Pradesh	1951-52	0.55	15.43	0.72	3.29	19.99
Madras	1951-52	8.70	34.39	45.33	0.31	88.73
Orissa	1951-52	1.92	1.14	0.29	2.13	5.48
Punjab	1951-52	0.07	8.68	0.76	0.70	10.21
Uttar Pradesh	1951-52	..	..	..	108.57	108.57
West Bengal	1948-49	..	1.07	0.49	25.78	27.34
PART B STATES						
Hyderabad	1952-53	3.70*	..	..	..	3.70
Madhya Bharat	1952-53	..	..	..	3.56	3.56
PEPSU	1952-53	..	..	..	0.57	0.57
Saurashtra	1951-52	..	..	..	1.72	1.72
Travancore-Cochin	1951-52	4.14*	..	..	..	4.14
PART C STATES						
Bhopal	1951-52	..	..	..	1.57	1.57
Coorg	1951-52	0.12	0.05	..	..	0.17
Delhi	1952-53	..	10.89	0.61	0.79	12.29
Himachal Pradesh	1952-53	..	..	..	0.65	0.65
Vindhya Pradesh	1951-52	0.01	..	0.08	4.89	4.98
TOTAL		20.19	115.90	50.81	243.80	430.69

*Represents total grants for all services.

STATISTICAL APPENDIX 18

Rates of property tax including service taxes levied by Municipal Corporations and Municipalities in the several States

State	Basis of levy	Rate of levy	Remarks
1. Andhra	Annual value	Rates range from 15 to 29 per cent. of the annual value (including education tax and service taxes).	Actual rate is to be fixed by each municipality.
2. Assam	Annual value	General tax varies from 3 to 8 per cent. Water tax varies from 2 to 8 per cent. Lighting tax varies from 1½ to 4 per cent. Latrine tax varies from 3 to 7½ per cent.	In respect of Government buildings and buildings whose rental value cannot be determined, the annual value is arrived at on the basis of the cost of construction, a percentage of the cost of construction being taken as the annual value.
3. Bihar	Annual value	33 per cent. in Patna and about 32 per cent. in municipalities including service taxes.	
4. Bombay	General Annual value (Rateable value)	Bombay Municipal Corporation.—Maximum for the general tax is 21 per cent. Actually levied at 17 per cent.	In respect of village panchayats, however, the tax can be levied on the capital value basis also.

The total rate levied in Bombay City by the Corporation is 24½ per cent. made up of :—
 General tax 17 per cent.
 Water tax 3½ per cent.
 Halalkhore tax 3 per cent.
 Fire service tax ½ per cent.

24½ per cent.

Poona Municipal Corporation levies the general tax on a graduated scale as under :—

Rateable value	Rate percentage
up to 1000	12 per cent.
1001 to 2000	13 per cent.

STATISTICAL APPENDIX 18—contd.

Rates of property tax including service taxes levied by Municipal Corporations and Municipalities in the several States—contd.

State	Basis of levy	Rate of levy	Remarks
		<i>Rateable value</i> 2001 to 5000 5001 and above	<i>Rate percentage</i> 14 per cent. 16 per cent.
		Ahmedabad Municipal Corporation levies the general tax on a graduated scale as under :—	
		<i>Valuation group</i>	<i>Use of property</i> <i>Rate per Rs. 100 of Annual Value</i>
		1 to 200	Residential 12 Non-residential 12
		201 to 1000	Residential 13 Non-Residential 13½
		1001 to 3000	Residential 15 Non-Residential 16
		3001 and above	Residential 16 Non-Residential 17
		Non-residential buildings and lands of mills and factories.	20
		In municipalities, the maximum rate is not fixed but the Government is pressing the municipalities to levy it at a rate of at least 20 per cent.	
5. Madhya Pradesh	Annual letting value.	Upto 10 per cent.	
6. Madras City.]	Annual rental value.	Properties whose annual value is Rs. 500 and below:	In respect of village panchayats, however, the tax is levied either on the capital value or annual value.
		17½ per cent. of the annual value.	
		Properties whose value is above Rs. 500 but below Rs. 1000:	
		19 per cent. of the annual value.	
		Properties above Rs. 1,000:	
		20 per cent. of the annual value.	
		In addition, education tax is levied at 15 per cent. of the above rates.	

STATISTICAL APPENDIX 18—contd.

Rates of property tax including service taxes levied by Municipal Corporations and Municipalities in the several States—contd.

State	Basis of levy	Rate of levy	Remarks
		In district municipalities, the total rate including service taxes and education tax ranges from $12\frac{1}{2}$ per cent. to 27 per cent. per annum. As regards house tax in village panchayats, the following minimum and maximum rates have been prescribed. These rates apply to the village panchayats in the Andhra area also.	
		<i>Basis of levy</i> <i>Minimum rate per half year</i> <i>Maximum rate per half year</i>	
		1. If levied on the basis of capital value. $1/16$ per cent. of capital value. 2. If levied on the basis of rental value. 1 per cent. of annual value.	
7 Orissa	Annual value	Maximum 10 per cent. for general tax. In addition water tax is levied by the Berhampur municipality. In the one municipality which levies octroi, the total rate of property tax is $6\frac{1}{2}$ per cent. In others, it ranges from 16 to $23\frac{1}{2}$ per cent.	Where the rent cannot be estimated, the annual value is to be fixed on the basis of the cost of construction, a percentage (7½) being taken as the annual value.
8. Punjab	Annual value	Maximum $12\frac{1}{2}$ per cent. 14 municipalities levy at less than 6 per cent. of annual value.	
9. Uttar Pradesh.	Annual rental value.	From $3\frac{1}{2}$ per cent. to 15 per cent. for general tax. Lucknow municipality levies general tax at slab rates which go up to 15 per cent. and in addition water tax at $7\frac{1}{2}$ per cent.	
10. West Bengal	Annual value	Calcutta Corporation	
		Per Rs. 100 of annual value	
		Where the annual value does not exceed Rs. 1,000. 15	The maximum percentage may be increased upto 33 per cent. with the approval of State Government in case of lands
		Where the annual value exceeds Rs. 1,000 but not Rs. 3,000. 18	

STATISTICAL APPENDIX 18—contd.

Rates of property tax including service taxes levied by Municipal Corporations and Municipalities in the several States—contd.

State	Basis of levy	Rate of levy	Remarks
		Where the annual value exceeds Rs. 3,000 but not Rs. 12,000.	and buildings, whose annual value exceeds Rs. 3,000.
		22	
		Where the annual value exceeds Rs. 12,000.	
		23	
		Howrah : Maximum 23 per cent. but actually levied at 21½ per cent. For other municipalities the maximum rate on holdings are :—	
		Darjiling and Kursaong municipalities	15
		Other municipalities	10
		Slightly lower rates are actually levied.	
		The following are the maximum rates upto which services taxes can be levied by municipalities in the State :—	
		Conservancy rate	10 per cent.
		Water rate	7½ per cent.
		Lighting rate	3 per cent.
11. Hyderabad	Annual value	Municipal corporations :— Maximum 18 per cent. Municipalities :— In respect of municipalities, the rate is to be fixed by each individual municipality with the sanction of the State Government. The average rate is 12½ per cent.	In respect of village panchayats a tax can be levied on the basis of capital valuation also, the minimum and the maximum being fixed by the State Government.
12. Mysore	Annual rental value.	Bangalore :—12½ per cent. on values below 500, and 14 per cent. on values over 500. In other municipalities it is lower. In the two city municipalities of Mysore and Devangere consolidated rate is 9 per cent.	
13. Rajasthan	Annual rental value.	5 per cent.	In the only municipality that levies it.
14. Travancore-Cochin.	Annual value	The rate levied by the Trivandrum Municipal Corporation is 12 per cent. (inclusive of tax for water supply). Maximum rate leviable is 15 per cent.	

STATISTICAL APPENDIX 18—concl'd.

Rates of property tax including service taxes levied by Municipal Corporations and Municipalities in the several States—concl'd.

State	Basis of levy	Rate of levy	Remarks
15. Bhopal	Annual value	1 Anna per rupee	Only houses let out are taxed. Owner occupied houses which are 70 per cent. of the total number of houses are exempt.
16. Coorg	Annual value	6½ per cent.	
17. Ajmer	Annual value	7½ per cent. where rental value exceeds Rs. 950 and 10 per cent. where it exceeds Rs. 1,200.	



सत्यमेव जयते

STATISTICAL APPENDIX 19

Total rates of property tax and service taxes levied by certain Municipal Corporations and Municipalities

State	Municipal Corporation or Municipality	Total rate of taxes on property levied on annual rental value per annum
(Per Rs. 100 of annual value)		
Bihar . . .	Patna Municipal Corporation.	33
Bihar . . .	Municipalities in Bihar . . .	32
Bombay. . .	Ahmedabad Municipal Corporation.	30 on the highest class of building namely, mills and factories.
Do.	Bombay Municipal Corporation	24½ (besides 2½ to 5 per cent. urban immovable property tax levied by State Government).
Do.	Poona Municipal Corporation.	19 In addition water rate is levied on rates dependent upon the size of the connection from the municipal mains.
Do.	Hubli Municipality . . .	25
Do.	Satara Borough Municipality . .	8
Public water rate. In addition, for water supplied for domestic services a water rate of Rs. 18 per annum (Rs. 24 for hotels and restaurants) for ½ inch pipe connection and a rate of Rs. 48 per annum, for ¾ inch pipe connection is charged.		
Madras . . .	Madras City Municipal Corporation.	23 (maximum rate 2½ per cent. on the highest class of buildings including education tax of 3 per cent.)
Madras . . .	Ootacamund Municipality . . .	19
Do.	Tuticorin Municipality . . .	22
Andhra . . .	Masulipatnam Municipality . .	29 (including education tax of 5 per cent.)
Do.	Anakapalee Municipality . . .	23
Orissa . . .	Puri	20
Punjab . . .	Five Municipalities levy at	12½
	Five Municipalities levy at	10
	Seven Municipalities levy at	6 to 10
	Fourteen Municipalities levy at	less than 6
Uttar Pradesh . .	Lucknow Municipality . . .	22½ (rate including water rate on the highest class of buildings).
West Bengal . . .	Calcutta Corporation . . .	23½ (on the highest class of buildings)
Do.	Howrah Municipality . . .	21½

STATISTICAL APPENDIX 19—contd.

Total rates of property tax and service taxes levied by certain Municipal Corporations and Municipalities—contd.

State	Municipal Corporation or Municipality	Total rate of taxes on property levied on annual rental value per annum
(per Rs. 100 of annual value)		
Hyderabad . . .	Secunderabad Municipal Corporation	10 (including water tax In addition a conservancy tax is levied on a sliding scale).
Hyderabad . . .	Hyderabad Municipal Corporation	14½ (including water tax and conservancy tax).
Mysore	Bangalore Municipal Corporation	14 (on the higher class of buildings inclusive of service tax).
Do.	The two City Municipalities of Mysore and Devangere	9
Travancore-Cochin	Trivandrum Municipal Corporation	12
Coorg	Coorg Municipality	6½
Ajmer	Ajmer	10 (on the higher class of buildings).
Bhopal	Bhopal	6½

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STATISTICAL APPENDIX 20

Particulars regarding remission of property tax for vacancies in Part A States

State	Category of local body	Period of vacancy for remission	Rate of remission	Remarks
1. Andhra	Municipalities	30 or more consecutive days in a half year.	Not exceeding half the tax.	The remission is to be proportionate to the period of vacancy.
2. Assam	Municipalities	60 or more consecutive days during a financial year.	Half of the tax.	
3. Bihar	Municipalities	30 or more consecutive days during the quarter.	Rate not specified.	
4. Bombay	Municipal Corporations	60 consecutive days in respect of the corporations and not less than 90 days in a year in respect of municipalities.	$\frac{2}{3}$ of the amount of general tax in the case of corporations and not exceeding half of the amount of tax due in the case of municipalities.	
5. Madras	(a) Municipal Corporation.	30 or more consecutive days in any half year.	Not exceeding half of the tax as relates to the building only.	
	(b) Municipalities	Same as Andhra	Same as Andhra.	
6. Punjab.	Municipalities and Small Town Committees.	Not less than 60 days	Such portion as the committee thinks fit.	
7. Uttar Pradesh	Municipalities	90 consecutive days	Rate not specified.	
8. West Bengal	(a) Municipal Corporation.	60 consecutive days	Half of the owner's share of the consolidated rate.	
	(b) Municipalities.	60 consecutive days	Half of the total rate.	

STATISTICAL APPENDIX 21

Showing the basis and rate of levy of Land Cess in the principal States

Name of the State	Name of the Cess	Basis of the Cess	Rate of Cess per rupee of land revenue or annual value
1	2	3	4
PART A STATES			
1. Andhra	Land Cess	Same as in Madras State.	2 annas.
	Education Cess	Do.	3 annas.
2. Assam	Local Rate	Land revenue	Maximum rate is Re. 0-2-8. The rate actually levied is 1½ annas in one district and 2 annas in all other districts.
3. Bihar	Road Cess	Annual rental value of estates	2 annas.
		Net profits of mines other than coal mines	1 anna.
4. Bombay	Local Fund & Cess	Land revenue	3 annas out of which levy of 15 pies is for primary education managed by District School Boards.
5. Madhya Pradesh	Land Cess	Land revenue	30 pies for Janapada Sabhas and 6 pies for village panchayats.
6. Madras	Land Cess	Annual rental value which is land revenue assessment together with water rate. Ryotwari land revenue assessments payable by the ryots will be fixed for ex-zamin lands also.	2 annas of which proceeds of 6 pies cess in panchayat villages are to be credited to the village panchayats.
	Education Cess	Do.	3 annas except in one district where it is 20 pies.
7. Orissa	Local Cess or Land Cess,	Annual value	Minimum rate is two annas. Maximum rate is 2½ as. The 1950 Act raising the maximum rate to 4 annas has not yet been given effect to.

STATISTICAL APPENDIX 21—contd.

Showing the basis and rate of levy of Land Cess in the principal States—contd.

1	2	3	4
PART A STATES—contd.			
8. Punjab	Local Rate	Annual value which is twice land revenue.	Ranges from two to four annas in the rupee of annual value.
9. Uttar Pradesh	Local Rate	Do.	Previously levied at 9½ per cent. of annual value or 3 as. in the Re. of land revenue but on account of abolition of Zamindaris, district boards now receive only a compensatory grant from Government in lieu cess.
10. West Bengal	Road Cess	Annual value of land and annual net profits from mines, quarries, etc.	6 pies.
	Public Work Education Cess (credited to district school boards)	Do. Annual value of land and annual net profits from mines, quarries, etc.	Do. 1½ annas per rupee of annual value of lands and 3½ pies of net profits of mines and quarries.
PART B STATES			
1. Hyderabad	Local Cess	Land revenue	1 anna.
2. Madhya Bharat	Land Cess	Land revenue	2 pies.
3. Mysore	Local Cess	Land revenue and forest revenue.	Maximum rate is 2 annas. Minimum rate is 1 anna.
4. PEPSU	Land Cess	Not levied.	
5. Rajasthan	Land Cess	Land revenue	1 anna.
6. Saurashtra	Land Cess	Not levied.	
7. Travancore-Cochin.	Land Cess for panchayats.	On the basis of extent	1½ pies for 4 cents.
PART C STATES			
1. Bhopal	Land Cess	Land revenue	1 anna to village panchayats, there being no district board.
2. Coorg	Local Cess	Annual rental value	3 annas.
3. Himachal Pradesh	Land Cess	Land revenue	25 per cent. of land revenue of which after deducting collection charges, 20 per cent. is proposed to be handed over to village panchayats there being no district board in the State.

STATISTICAL APPENDIX 22

Showing the annual income of Local Boards from Land Cesses in the Principal States

Name of State	Latest year for which figures are available	Income from land cess (In lakhs of Rs.)	Percentage of income from land cess to the total in- come of boards <i>from all sources</i>
I	2	3	4
PART A STATES			
1. Andhra:			
District Boards (land cess)	1952-53	48.19	11.5
District Boards (Education cess)	Do.	82.73	19.8
2. Assam	1950-51	13.71	26.5
3. Bihar	1950-51	145.18	33.5
4. Bombay	1952-53	105.39	43.7
5. Madhya Pradesh :			
Janapada Sabhas	1951-52	40.81	22.1
6. Madras (Residuary State) :			
District Boards (land cess)	1952-53	55.92	10.3
District Board (Education cess)	Do.	89.12	16.5
Village Panchayat (land cess)	Do.	2.53	1.7
8. Orissa	1951-52	16.12	24.2
9. Punjab	1951-52	63.43	25.2
10. Uttar Pradesh.	After the abolition of Zamindaris, the district boards now get only compensatory grant-in-aid from Government in lieu of cess		
11. West Bengal	1948-49	35.47	41.0
PART B STATES			
1. Hyderabad	1952-53	31.26	90.0
2. Travancore-Cochin :			
Village Panchayats	1951-52	1.02	16.8
3. PEPSU	There are no district boards in these States.		
4. Saurashtra			
5. Travancore-Cochin			
TOTAL.		730.83	

STATISTICAL APPENDIX 23

Income of Municipalities from Octroi

(In lakhs of Rupees)

Name of State	1948-49	1949-50	1950-51	1951-52	1952-53	Latest year figure
PART A						
Assam	..	..	..	..	..	..
Bihar	..	..	..	..	..	..
Bombay	..	..	154.92 (44.86)	195.98 (45.36)	213.54 (46.58)	213.54 (46.58)
Madras	..	..	..	..	..	..
Madhya Pradesh	75.60 (46.75)	91.83 (49.06)	78.43 (43.57)	74.48 (47.59)	..	74.48 (47.59)
Orissa	1.50 (16.04)	1.32 (14.8)	1.60 (14.6)	1.73 (14.7)	..	1.73 (14.7)
Punjab	54.74 (56.2)	59.82 (58.9)	84.66 (71.7)	108.55 (77.2)	..	108.55 (77.2)
Uttar Pradesh	139.08 (39.83)	137.67 (37.84)	..	..	..	137.67 (37.84)
West Bengal	..	..	..	..	..	..
PART B						
Hyderabad	..	..	..	..	..	..
Madhya Bharat	..	..	..	..	29.54 (46.7)	29.54 (46.7)
PEPSU	..	..	32.26 (32.26)	37.96 (37.96)	40.48 (40.48)	40.48 (40.48)
Saurashtra	..	..	57.86* (61.04)	60.54 (58.73)	..	60.54 (58.73)
Travancore-Cochin	..	..	..	..	..	..
PART C						
Bhopal	3.53 (71.1)	4.58 (65.2)	5.23 (68.9)	6.61 (72.5)	..	6.61 (72.5)
Coorg	..	..	1.39 (70.56)	1.77 (73.75)	..	1.77 (73.75)
Delhi	..	..	..	..	..	..
Himachal Pradesh	2.33 (88.6)	3.61 (90.9)	5.03 (92.6)	5.08 (92.02)	6.65 (94.1)	6.65 (94.1)
Vindhya Pradesh	..	0.03 (0.39)	0.03 (0.30)	0.03 (0.36)	..	0.03 (0.36)
TOTAL .						681.59

N.B.—The figures within brackets below denote the percentage to total tax revenue.

* Includes Terminal Tax also.

STATISTICAL APPENDIX 24

Income of Municipalities from Terminal Taxes

Name of State	1948-49	1949-50	1950-51	1951-52	1952-53	Latest year figures
PART A						
Assam	..	..	..	..	..	..
Bihar	..	..	..	..	..	..
Bombay	..	..	35·39 (9·62)	38·83 (8·98)	29·74 (6·48)	29·74 (6·48)
Madras	..	..	..	..	..	..
Madhya Pradesh	12·47 (7·71)	10·56 (5·64)	9·39 (5·21)	12·58 (8·03)	..	12·58 (8·03)
Orissa	..	..	..	..	..	..
Punjab	27·32 (28·09)	24·26 (23·8)	11·74 (9·9)	4·74 (3·4)	..	4·74 (3·4)
Uttar Pradesh	53·66 (15·37)	48·67 (13·38)	..	..	..	48·6 (13·38)
West Bengal	..	..	..	..	..	..
PART B						
Hyderabad	..	..	..	..	..	..
Madhya Bharat	..	..	..	..	4·27 (6·7)	4·27 (6·7)
PEPSU	..	..	..	..	..	..
Saurashtra	..	..	..	..	..	..
Travancore-Cochin	..	..	..	..	..	..
PART C						
Bhopal	..	..	1.	..	..	..
Coorg	..	..	..	..	..	..
Delhi	58·25 (51·8)	67·42 (42·2)	70·25 (45·9)	78·62 (46·9)	82·91 (45·3)	82·91 (45·3)
Himachal Pradesh	..	..	..	..	..	..
Vindhya Pradesh	..	..	..	..	..	..

N.B.—The figures within brackets below denote the percentage to total tax revenue.

STATISTICAL APPENDIX 25

Income of Municipal Corporations from Octroi and Terminal taxes

State	1950-51		1951-52		1952-53	
	Amount (In lakhs of Rs.)	Percent- age to tax re- venue	Amount (In lakhs of Rs.)	Percent- age to tax revenue	Amount (In lakhs of Rs.)	Percent- age to tax revenue
1. Bombay :						
(a) Ahmedabad	33·7	26·5	44·0	53·6	51·6	23·6
(b) Bombay .	67·6	11·1	68·5	10·4	69·9	9·1
(c) Poona .	39·9	51·3	42·6	50·6	40·5	46·3
TOTAL .	141·2	17·3	155·1	18·8	162·0	15·1
2. Madhya Pradesh:						
(a) Jabalpur	14·8	68·4	17·2	69·6	16·1	67·2
(b) Nagpur .	..	..	43·3	55·9	43·2	55·0
TOTAL .	14·8	68·4	60·5	59·3	59·3	57·8
3. Mysore						
Bangalore	15·4	25·6	20·1	31·6	16·8	23·3
4. Travancore-Cochin						
Trivandrum .	..	..	..	..	..	..
TOTAL FOR ALL COR- PORATIONS .	171·4	12·2	235·7	14·9	238·1	16·2

STATISTICAL APPENDIX 26

Income from Octroi and Terminal taxes of all Municipalities and Municipal Corporations in all States

State	Latest year for which figures are available	Income in the year (In lakhs of Rs.)
PART A		
Assam	..	..
Bihar	..	..
Bombay :		
(a) Municipalities	1952-53	243·28
(b) Municipal Corporations	1952-53	162·0
Madras :		
(a) Madras Municipal Corporation	1951-52	1·58
(b) Other Municipalities	..	..
Madhya Pradesh:		
(a) Municipalities	1951-52	87·06
(b) Municipal Corporations	1952-53	59·30
Orissa	1951-52	1·73
Punjab	1951-52	113·29
Uttar Pradesh	1949-50	186·34
West Bengal	..	..
PART B		
Hyderabad	..	..
Madhya Bharat	1952-53	33·81
Mysore:		
(a) Bangalore Corporation	1952-53	16·80
(b) Other Municipalities	Figures not reported	
PEPSU	1952-53	40·48
Saurashtra	1951-52	60·54
Travancore-Cochin	..	..
PART C		
Bhopal	1951-52	6·61
Coorg	1951-52	1·77
Delhi	1952-53	82·91
Himachal Pradesh	1952-53	6·65
Vindhya Pradesh	1951-52	0·03
TOTAL		1104·18

STATISTICAL APPENDIX 27

Octroi incomes of the Amritsar Municipality under various classes for the years 1950-51, 1951-52 and 1952-53

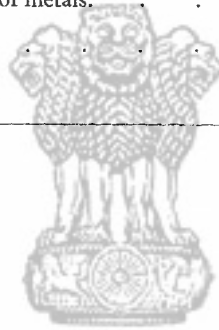
Class and Names of articles		1950-51	1951-52	1952-53
		Rs.	Rs.	Rs.
Class I	Articles of food and drink	7,46,442	10,02,427	11,66,962
Class II	Animals	24,947	52,527	45,532
Class III	Fuel and articles used for fuel and lighting	1,92,147	2,69,885	2,17,601
Class IV	Articles used in construction of buildings	1,06,422	1,27,219	1,09,849
Class V	Drugs and perfumes	1,29,028	1,13,881	1,12,779
Class VI	Tobacco	19,593	20,728	17,399
Class VII	Piece-goods and textile fabrics	2,52,229	3,98,518	5,00,074
Class VIII	Metals and articles of metals	1,27,027	1,38,644	1,36,527
Class IX	Miscellaneous	1,17,367	1,49,982	1,47,926
		17,15,202	22,73,811	24,54,649



STATISTICAL APPENDIX 28

Octroi incomes of the Patiala Municipality under various classes for the years 1950-51, 1951-52 and 1952-53

Class & Names of Articles		1950-51	1951-52	1952-53
		Rs.	Rs.	Rs.
Class I :	Articles of food and drink.	1,95,871	2,24,983	2,42,525
Class II :	Animals	7,768	6,516	6,516
Class III :	Fuel and articles used for fuel and lighting.	54,521	64,808	74,117
Class IV :	Articles used in construction of buildings	66,036	76,166	55,634
Class V :	Drugs and perfumes.	27,088	16,150	19,183
Class VI :	Tobacco.	12,696	13,161	11,040
Class VII :	Piece-goods and textile fabrics.	83,454	84,952	1,12,064
Class VIII :	Metals and articles of metals.	44,207	59,153	54,228
Class IX :	Miscellaneous	2,416	16,109	24,518
		4,96,016	5,61,999	5,95,823



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STATISTICAL APPENDIX 29

Showing the income of Local Bodies from Profession Tax in the several States

A—MUNICIPAL CORPORATIONS AND MUNICIPALITIES

State	Latest year for which the figures are available	Income from Profession tax in the year (In lakhs of Rs.)	Percentage of the in- come to the total income of the local bodies from all taxes
1	2	3	4
PART A STATES			
Assam	Not levied	..	..
Bengal (West) :			
(a) Calcutta Corporation	1951-52	28.00	7.5
(b) Other Municipalities in West Bengal	1948-49	5.58	5.4
Bihar :	Not levied	..	..
Bombay (including Ahmedabad Corporation)	1952-53	3.07	0.4
Madras :			
(a) Madras Corporation	1952-53	10.81	6.5
(b) District Municipalities	1952-53	11.44	5.0
Andhra District Municipalities	Do.	5.77	4.8
Orissa	1951-52	0.39	3.2
Punjab	1951-52	0.14	0.1
Uttar Pradesh	1949-50	1.78	0.6
Madhya Pradesh	1951-52	1.88	1.2
PART B STATES			
Hyderabad :			
(a) The two Municipal Corporations of Hyderabad & Secunderabad	1952-53	2.75	6.3
(b) Other Municipalities	1952-53	3.04	5.5
Mysore :			
(a) Bangalore Municipal Corporation	1952-53	1.11	1.6
(b) Devangere City-Municipality	1952-53	0.12	3.5
(c) Other Municipalities		Figures not reported.	
Madhya Bharat	1952-53	0.58	0.9
PEPSU	Not levied	..	..

STATISTICAL APPENDIX 29—*contd.*

Showing the income of Local Bodies from Profession Tax in the several States—contd.

A—MUNICIPAL CORPORATIONS AND MUNICIPALITIES—*contd.*

1	2	3	4
PART B STATES—<i>contd.</i>			
Rajasthan	Not levied	..	..
Saurashtra	Not levied	..	..
Travancore-Cochin :			
(a) Trivandrum Corporation.	1951-52	0.76	0.2
(b) Other Municipalities	1951-52	6.60	23.9
PART C STATES			
Coorg	1951-52	0.27	11.2
Delhi }	Not levied	..	..
Himachal Pradesh }			
Total annual income of municipal corporations and municipalities from Profession Tax in all States		84.08	..
B.—DISTRICT BOARDS AND VILLAGES PANCHAYATS			
PART A STATES			
Andhra :			
District Boards	1952-53	0.65	0.2
Bombay :			
District Boards	1952-53	1.94	1.5
Madras :			
(a) District Boards (in the residuary Madras State)	1952-53	1.52	0.3
(b) Village Panchayats (in the combined Madras State)	1950-51	1.07	6.5
Orissa :			
District Boards	1951-52	0.05	0.3
Punjab :			
District Boards	1951-52	11.84	15.6
PART B STATES			
Hyderabad :			
(a) District Boards	1952-53	0.05	0.2
(b) Village Panchayats	1952-53	0.54	17.4
Travancore-Cochin :			
Village Panchayats	1951-52	0.46	29.8
Total annual income of Local Boards from Profession Tax in all States		18.12	
Total annual income of all Local Bodies from Profession Tax in all States		102.20	

STATISTICAL APPENDIX 30

Rates of Advertisement tax levied by the Madras Corporation

Revised Schedule of rates as per resolution of Council dated 29-3-1947

I. In respect of advertisements on cloth hung across the streets, the rate of advertisement tax shall be Rs. 10 per calendar month or less in a street 10 feet to 20 feet broad and Rs. 20 per calendar month or less in a street 20 feet broad upto 50 feet. This kind of advertisement will not be allowed in streets broader than 50 feet.

	Per week of 7 days	Per Calendar month	Per year
	Rs. A. P.	Rs. A. P.	Rs. A. P.
II. In respect of advertisements on hoardings, walls, posts in the form of non-illuminated sky signs:			
(a) For a space not exceeding single royal .	0 1 0	0 4 0	..
(b) For a space over single royal and upto 10 sq. feet	0 2 0	0 8 0	6 0 0
(c) For a space over 10 sq. ft. upto 25 sq. ft.	0 4 0	1 0 0	10 0 0
(d) For every additional 25 sq. ft. or less .	0 3 0	0 12 0	8 0 0
III. Posters :			
(a) For a space not exceeding a single royal	0 1 0	..	..
(b) For a space not exceeding double royal .	0 2 0	..	..
(c) For every additional 10 sq. ft. or double royal	0 1 6	..	..
IV. (a) For each vehicle other than motor car or lorry or any other means of conveyance propelled by electrical or mechanical power	1 4 0	5 0 0	..
(b) For each motor car or lorry or any other means of conveyance propelled by electrical or mechanical power	5 0 0	15 0 0	..
V. Advertisement boards carried by Sandwich Boardmen	..	2 0 0	..
VI. Illuminated Advertisements and sky signs :			
(a) For a space upto 5 sq. ft.	..	2 8 0	..
(b) For a space above 5 sq. ft. upto 25 sq. ft.	..	3 0 0	..
(c) For every additional 25 sq. ft.	..	2 8 0	..
VII. Advertisements exhibited on screens by means of lantern slides	..	2 8 0 per slide.	..

NOTE.—Mere exhibition of the name of the owner of the vehicle, lorry, or tram car is not an advertisement liable to tax. For the purpose of calculating the size of an illuminated advertisement on sky sign the greatest length and the greatest breadth will be taken into consideration.

STATE TAXES

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Sales Tax and Other State Taxes

CHAPTER III.—EXAMINATION OF CERTAIN SUGGESTIONS

1. *Sales tax on 'services'.*—Extending the sales tax to 'services' would involve administrative difficulties. In the absence of written evidence, evasion would be easy and where sales of goods and services are rendered by the same person, assessment would be difficult. It would also be duplication of profession tax and we do not recommend the extension of sales tax to services. (Paragraph 3)

In the taxation of sales of goods where the charges made cover both value of services rendered and the cost of materials, different formulæ for varying contexts are adopted by different States. We consider the position to be generally satisfactory. (Paragraph 3)

2. *Sales tax on transactions in forward markets.*—Levy of stamp duties, through clearing houses of forward markets, would be a more appropriate way of taxing these transactions than imposing on them a sales tax. (Paragraph 4)

3. *Sales tax on newspapers.*—A sales tax on newspapers would entail hardship disproportionate to the revenue as there are many newspapers with small circulation; so would an *advertisement tax* to the extent that an increase in advertisement costs might be expected to have the effect of diverting advertisements from the newspapers with smaller circulation. We are of the opinion that a sales tax on newspapers would not on the whole be worthwhile. (Paragraph 5)

4. *Selective sales tax.*—The incidence on the less well-to-do classes would be higher and the tax system would be more regressive than at present. On the other hand, a general sales tax would in point of rate be lower and in point of incidence less open to objection. (Paragraph 6)

5. *First-stage single-point sales tax.*—If the States in India were to adopt the first-point tax, the reduction in the number of dealers liable to tax would not be substantial. In terms of obtaining the same revenue, the rate of the first-stage tax has to be much higher than that of the single-point levy at the last stage and to that extent, it provides larger incentive for evasion. It is not therefore a suitable form of sales taxation for general adoption. It has, however, certain limited uses as part of, or in combination with, other systems. (Paragraphs 8—11)

6. *Multi-point sales tax.*—It is sometimes urged that, in replacement of their existing systems, all States should adopt a low multi-point sales tax on all commodities and on practically all those who sell. There are many reasons why this will not be an adequate

solution. At the same time, a low multi-point tax may well play a significant part as one of the complementary features of a proper system of sales tax. (Paragraph 13)

7. *Purchase tax.*—A purchase tax is practicable only in very limited context, e.g., motor cars and other readily traceable articles, and its limited application makes it a very negligible source of revenue. A purchase tax as a substitute for the taxation of non-resident dealers is of no advantage from the revenue point of view. At the most, it provides a check to be exercised at the purchase end of a resident registered dealer's transactions. In the case of resident registered dealers and consumers who are outside the administrative arrangements for collection, the levy of a purchase tax is impracticable. (Paragraphs 14-15)

8. *Substitution of sales tax by excise, customs and octroi.*—Excise duties are selective and the rates of duties are normally high, whereas sales tax operates at different points of the trade channel over a larger number of commodities and can, therefore, be levied at comparatively low rates. Octroi suffers from obvious limitations and disadvantages which disqualify it from being considered as a major source of revenue. Customs by itself cannot replace sales tax. By definition, customs and excise apply only to a strictly limited portion of industrial output that is sold within the country. The merit of sales tax lies in the fact that it is dispersed over a large number of goods and of dealers and this makes possible the realisation of substantial revenue at relatively low rates of tax. (Paragraphs 16-20)

CHAPTER IV.—THE UNION, THE STATES AND THE SALES TAX.

9. *Impracticability of Centralisation.*—On account of its yield and flexibility, sales tax has come to occupy a large and indispensable place in the State financial systems. Centralisation of the tax must be ruled out. Difficulties which confront the tax administrations vary considerably in character and composition from State to State and taken together present a large and almost bewildering variety of problems. It would be hardly possible for the legislative and rule-making power located in the Central Government to deal effectively and promptly with these. (Paragraphs 4 and 5)

10. *Sales tax and foreign trade.*—We consider the position under the Constitution to be perfectly satisfactory so far as foreign trade is concerned. (Paragraph 7)

11. *Sales tax on essential goods.*—There is no reason why a State should not determine the range and rates of its sales tax, to the extent that the incidence of the tax rests on its resident consumers and the collection of the tax falls on its resident dealers. (Paragraph 11)

12. *Considerations of future policy regarding sales tax.*—In essence, the sales tax must continue to be a State tax. However, power and responsibility of the State must end and that of the Union begin when the sales tax of one State impinges administratively on the dealers and fiscally on the consumers of another State. Inter-State sales should be the concern of the Union. The Union should also have power to control the taxation of sales of raw materials which figure significantly in inter-State commerce. Except

in these cases, Parliament should not exercise concurrent power in regard to the levy of sales tax. (Paragraph 14)

13. *Main features of Central legislation.*—Parliamentary legislation will provide for the levy of sales tax on inter-State transactions. It will provide for delegating to the States the powers of the Central Government in respect of assessment, collection, etc. It will also provide that receipts will be distributed to the States on the basis of collection. (Paragraph 16)

14. *Rate of tax on inter-State transactions (other than those relating to goods of 'special importance in inter-State trade').*—The rate of the Central tax should be low. It may be one per cent. when the inter-State transaction takes place between a registered dealer in one State and a registered dealer in another. As for transactions between registered dealers in one State and unregistered dealers or consumers in another, the rate of tax should be the same as the exporting State imposes on similar transactions in its own territory. The proceeds in excess of the receipts from the rate normally leviable on inter-State trade between registered dealers, should be made available to the State where goods are delivered. The Central legislation should make no distinction between ordinary goods and 'luxury' goods for purposes of the rate of tax on inter-State transactions. (Paragraphs 17—19)

15. *Definition of 'sale'.*—The Central legislation should formulate the principles for determining the circumstances in which a sale becomes taxable by a particular State and by no other. It should also define in detail what constitutes a sale or purchase in the course of inter-State trade or commerce. (Paragraph 20)

16. *Central regulation of States' sales taxes on goods of special importance in inter-State trade.*—The main condition will be that no State shall have a system of levy other than a single-point tax on such goods. The tax may be either on sales or purchases but will be recoverable only at the last stage of sale or purchase. We recommend that the rate of such tax should be three pies per rupee. No purchase tax will be levied by a State on these goods if a Central tax on inter-State trade has already been levied at the rate of three pies in the rupee. The goods to be specified as goods of special importance in inter-State trade are: coal, iron and steel, cotton, hides and skins, oilseeds and jute. (Paragraphs 21-22)

CHAPTER V.—THE STATES AND THE SALES TAX

17. *Future pattern of sales tax.*—It is desirable that the sales tax, in a suitable and not unduly burdensome form, should reach the lower income groups and cover a large number of persons; for this to be possible, the rate of tax has to be low, and the system, a multi-point one. But this can only be one feature of the tax. For the middle and higher incomes and for dealers at a higher level of turnover, the multi-point aspect of the system should co-exist with the levy of a single-point tax. All dealers having a turnover exceeding Rs. 5,000 a year should be made liable to the multi-point tax in the combined system that we recommend. There should be no exemptions. The rate of tax should not be higher than half per cent. For the single-point tax, the turnover limit should be relatively

high, e.g., Rs. 30,000 a year. The rate of the single-point tax and the taxable quantum of the dealers liable to tax will have to be determined by each State in accordance with its revenue requirements and other circumstances. The higher rate of single-point tax will apply to goods other than those entering the cost of living of the poorer classes. The single-point tax need not necessarily be uniform on all types of goods. As at present, some of the 'luxury' articles can and should be subjected to a higher rate of levy. (Paragraphs 1—4)

18. *Exemptions from sales tax.*—While the objects for which exemptions are granted are laudable, each exemption reduces revenue and, to that extent, may necessitate an increase in the rate of tax on other goods. It also widens the scope for evasion. Exemptions should, therefore, be limited to a few large, well-defined classes of goods. They should be expressed in terms which both the trade and the administration can readily understand. Exemptions which are related to the prices of commodities create confusion and complicate the accounts. State Governments should be chary of extending the list of exemptions in directions which serve little purpose but add to the cumulative inconvenience and harassment of the dealer. (Paragraph 5)

19. *Financial effect of the proposals.*—On our estimation, the adoption of the flexible pattern recommended by us will mean that every State will gain in revenue, in addition to achieving a simpler and a more rational system for the different classes of dealers. Further, there will be gain from the allotment to the States of the proceeds from the Central tax on inter-State transactions. A substantial reduction will also be effected in the very considerable evasion which now takes place in inter-State trade. (Paragraph 6).

20. *Other advantages of the proposals.*—The proposals will make it unnecessary for the States to tax non-resident dealers. A purchase tax can, also, be no alternative to these proposals. We recommend that during the time taken to carry out the necessary Constitutional and legislative measures for implementing our proposals, States should not attempt either to tax non-resident dealers or to levy a purchase tax. (Paragraph 7)

21. *Administration of sales tax.*—We cannot wholly discount allegations made to us that there was corruption in administration and that evasion was on the increase. One of the main roots of that corruption lies in the complexities of enforcement and the desire on the part of traders to escape from these. We believe that the adoption of the pattern of sales tax we have recommended will reduce many of the complexities that beset the present sales tax systems. The complexity of accounts is one of the main grievances of the dealer. When some sales of goods are taxable and others are not, the keeping of accounts and the submission of returns present difficulties which may be administratively unavoidable but which ought to be kept to the absolute minimum. (Paragraphs 8—12)

22. *Aspects of administration.*—The sales tax authorities enjoy, in certain respects, wider powers than the income-tax authorities. Powers of this kind, most of which can be abused and many of which result in needless harassment, should be vested only in officers of adequate seniority and rank. Assessments are sometimes delayed

over a number of years, making it difficult for the dealer to obtain necessary evidence, documentary or other. While the honest dealer thus suffers, the delay helps the dishonest dealer in many ways. To the extent the delay is due to inadequacy of staff, establishment should be strengthened. In many States, the same staff is expected to do both assessment and inspection and the latter is either not done at all or indifferently done. The maintenance of a separate inspection staff to detect evasion and also serve as a liaison between the Sales Tax Department and the dealers is extremely desirable. For the collection and maintenance of necessary statistics, classification of tax receipts, etc., there is a good case for the creation of an Intelligence Section in every Sales Tax Department. The provisions of the Act and the Rules being in legal form and language, are not clear to a majority of dealers. There is, therefore, need for authoritative pamphlets on procedures being published by the State Governments themselves. The behaviour of sales tax staff towards assesseees and the public is a matter of great importance. Appreciation of the *bona fide* difficulties of traders, guidance in proper compliance of the requirements of the tax administration and courteous behaviour will make Sales Tax Departments less unpopular than at present. (Paragraphs 13—18)

23. *Issue of cash memos and vouchers.*—The practice of showing tax separately in bills leads to the customer bargaining for his not having to pay it and to the dealer offering not to charge it provided a voucher is not insisted on, the result being collusion and evasion. While the issue of vouchers and cash memos should be made compulsory, it is desirable that separate mention of the sales tax in a bill should be discouraged, or at any rate, not receive the explicit approval of State Governments. (Paragraph 19)

24. *Evasion and avoidance of tax.*—To prevent these, there is great need for simplifying the administrative requirements, including accounts, forms of returns, etc. It is necessary to pay more attention than at present to supervision, including surprise check by the higher officers of the Department. Assessments made by lower officers should be test-audited more frequently. Evasion can also be tackled if arrangements with the Customs and railway authorities are made for exchange of information. There should be greater co-ordination between Sales Tax Departments of different States. (Paragraphs 20-21)

25. *Sales tax Advisory Committees.*—For the maintenance of proper liaison with trade and industry, the Sales Tax Department should maintain contact with chambers, associations, etc., of trade, commerce and industry. A small committee representing the important sections of trade, commerce and industry would be useful for this purpose. Each State should establish such a committee. The committee should discuss matters of general interest to the trade and not items of individual dispute or grievance relating to particular assessment or particular dealers. (Paragraph 22)

26. *Sales Tax Tribunal.*—There should be an independent authority in each State to decide the final appeals on sales tax disputes between the Sales Tax Department and the dealer. For this purpose, we recommend the establishment of Sales Tax Tribunals in all States. (Paragraph 23)

27. *Co-ordination.*—In the administration of sales tax, there is constant need for exchange of information between one State and another. Such an exchange regarding methods of assessment, maintenance of accounts, and other procedural matters is likely to be useful in improving the efficiency of the Department as a whole. It is desirable, therefore, that the heads of Sales Tax Departments of all States and representatives of the Central Government should hold meetings at least once a year, under the auspices of the Inter-State Taxation Council proposed by us. (Paragraph 24)

28. *Uniformity in sales tax law and procedure.*—The proposed Inter-State Taxation Council should undertake the task of introducing as much uniformity as possible between different States in the matter of sales tax law, regulation, procedure, forms, etc., in so far as these can be distinguished from and are not concerned, with actual rates, turnover limits, exemptions, etc. (Paragraph 25)

CHAPTER VI.—STATE TAXES ON MOTOR VEHICLES AND MOTOR SPIRIT

29. *Abolition of octroi and terminal taxes.*—The question whether it is desirable and practicable to abolish octroi and terminal taxes has to be decided on broader grounds and not on those restricted to the effects of the taxes on motor traffic. Our detailed suggestions in respect of octroi and terminal taxes are made in the section dealing with local taxes. (Paragraph 13)

30. *Abolition of wheel tax.*—The local wheel tax is in the nature of an additional levy parallel to the States' motor vehicles tax. Several considerations point to the desirability of the two being consolidated into a single tax. Except in the case of municipal corporations, we recommend (1) the abolition of municipal wheel tax on motor vehicles, (2) an appropriate increase in the motor vehicles tax levied by the State Governments, and (3) apportionment of a part of such proceeds to the municipalities concerned. (Paragraph 14)

31. *Wheel tax by Corporations to continue.*—Corporations in the big cities which are centres of industry and business, construct roads of a high standard and incur large expenditure. The recommendation regarding abolition of municipal wheel tax is not intended to apply to wheel tax levied by corporations. We are of the view that corporations should be permitted to levy wheel taxes. We, however, suggest that for vehicles plying exclusively within the corporation limits, some reduction should be made in the State motor vehicles tax. (Paragraph 15)

32. *Sales tax on motor vehicles.*—The higher rates of sales tax where they are in force are by no means confined to motor vehicles. We are unable to concede that the motor vehicles as a class are unsuitable for inclusion in the list of articles on which special rates of tax are charged by State Governments. (Paragraph 16)

33. *Tax on passengers and goods.*—The burden of both motor vehicles tax and the tax on passengers and goods falls ultimately on the user of the motor vehicles and neither tax can be considered in isolation. Therefore, where the rates of motor vehicles tax have been kept adequately low, a tax on passengers and goods may reasonably be levied; but where the motor vehicles tax itself is very

high the levy of a separate tax on passengers and goods would be unjustifiable. (Paragraph 17)

34. *Reciprocal arrangements between States.*—Motor vehicles passing through more than one State are sometimes made liable to pay the motor vehicles taxes of the other States. The problem of double taxation, combined with the inconvenience to the tax-payer which thus arises can be solved by reciprocal arrangements between the different States. We also recommend that entrance taxes, fees, licence duties, etc., wherever these are in the nature of a tax on motor vehicles, registered in another State, should be abolished. (Paragraph 18)

35. *Freight equalisation cess.*—It would not be reasonable for petrol alone being singled out for price equalisation on a country-wide basis. We are therefore unable to recommend that a transport cess of one and a half annas per gallon should be levied for the purpose of equalising prices. As for the rate of tax on motor spirit, we regard the rate of six annas per gallon as a ceiling to be exceeded by no State, rather than as a uniform rate which all States should attempt to adopt. (Paragraph 19)

36. *Road Cess.*—For the development of rural communications, much larger finance is necessary. We have made our recommendations separately for this purpose. A cess of the nature indicated should, in our view, be left to be levied by local bodies. (Paragraph 20)

37. *Central and State Road Funds.*—Though as a rule opposed to the earmarking of revenues for specific purposes, we consider that an exception is definitely justifiable in the context of road development. We suggest the following arrangements in respect of the earmarking of the proceeds from taxation of motor vehicles and motor spirit:

- (i) The annual contribution now made to the Central Road Fund by the Government of India should continue at the present rate of two and a half annas per gallon out of the total Central taxes on motor spirit.
- (ii) States should contribute not less than 25 per cent. of their receipts from taxes on motor spirit to their Road Funds. In addition, not less than 25 per cent. of the balance of the proceeds from motor vehicles tax, which remains after deducting compensation or share to be given to local authorities should be contributed to the State Road Funds.
- (iii) The Central Government should continue to give grants to the State Governments from the Central Road Fund. The States should continue to spend on road programmes, from their general revenues, supplementing the necessary finance from their State Road Funds.
- (iv) For larger expenditure on rural communications, an All-India Rural Communications Fund should be created which should be both substantial and non-lapsable. Contributions from this Fund should be available to all States and the Central contribution should, in each State, be supplemented by the State Government as well as by local boards and village panchayats (where suitable in the shape of

free labour, etc.). From a broad appraisal of the problem of developing rural communications, we consider there is justification for (1) an annual contribution to this Fund by the Central Government of a sum equivalent to the proceeds of the Customs and Central Excise duties on petrol to the extent of four and a half annas per gallon; and (2) for the provision by each State Government for expenditure on rural communications of a sum not less than 25 per cent. of the Central grant to the State from this Fund, the Central grant being conditional on such provision by the State. (Paragraph 22)

38. *Principles of motor vehicles taxation.*—In regard to inland transport policy, we consider the recommendations made by the Motor Vehicles Taxation Enquiry Committee to be suitable. Regarding the basis of motor vehicles taxation also, we endorse the Committee's recommendation. With reference to the ceiling rates of motor vehicles tax, we consider that the question of fixing maximum rates of motor vehicles taxes is chiefly one of co-ordination between State taxation and Union policies. Accordingly, we are of the view that to the extent that any of these matters are not resolved in the discussions which take place in the Transport Advisory Council, they should be finally considered by the Inter-State Taxation Council recommended by us. In regard to the Committee's recommendations suggesting restrictions on the powers of States and local bodies to impose taxes other than motor vehicles tax, we have separately expressed our views on the individual recommendations. Moreover, we believe that such taxes cannot be the subject of Parliamentary legislation under entry No. 35 of the Concurrent List. Here again, the necessary co-ordination is best secured through the proposed Inter-State Taxation Council. (Paragraphs 23—26)

CHAPTER VII.—STAMP DUTIES AND COURT FEES

39. *Uniformity in the rates of stamp duties.*—Uniformity in the rates of stamp duties on instruments concerned with inter-State transactions is neither necessary nor desirable. As for instruments relating to inter-State transactions, these have already been reserved for the Central Government and the present disparities can, if necessary, be minimised by Central legislation. (Paragraph 14)

40. *Exemptions.*—The present lists of exemptions need to be carefully examined with a view to withdrawing such of them as are not connected with some important policy of government or the removal of some hardship to the tax-payer. (Paragraph 16)

41. *Feasibility of extending stamp duties.*—Regarding the re-imposition of stamp duty on cheques, we are of the opinion that in view of the considerable leeway which banking and the cheque habit, have yet to make in this country, no stamp duty should be levied on them. There is a possibility of extending the stamp duties to sea insurance policies. As the bulk of sea insurance business is placed abroad, revenue is lost by not making these policies compulsorily liable to stamp duties in India. Government of India should look into this suggestion and amend the Stamp Act suitably. (Paragraph 17)

42. *Extension of stamp duties to transactions in forward markets.*—Bombay is at present the only State where stamp duties on transactions in forward markets are levied. The Central Government have now enacted the Forward Markets Regulations Act and established the Forward Markets Commission. As and when the forward markets in different commodities are brought under the control of the Act, in different States, it should be possible for the States concerned to impose stamp duties on the lines levied in Bombay. Similar steps can be taken in regard to transactions in stock exchanges when Central legislation in respect of them is enacted and made operative. The control of blank transfers has to await Central legislation in regard to the regulation of Stock exchanges and the reform of Company Law. However, if transfers of shares are to be registered each time they pass from one person to another, the present stamp duties on transfers will have to be adequately reduced.

43. *Court Fees.*—We are in agreement with the view that court fees should be on the basis of covering the expenses of administration of justice. The question of outright abolition of court fees is different. It has to be considered as part of a larger problem which is concerned with other items as well (e.g. lawyers' fees) which enter into the cost of justice. (Paragraph 24)

CHAPTER VIII.—OTHER STATE TAXES

44. *Entertainment Tax:* (1) *Substitution of percentage rates for slab rates of tax.*—There is justification in the complaint that the slab system of entertainment tax, as it now prevails in some States, stands in the way of the flexibility needed in the adjustment of admission rates. A tax on a percentage basis, with certain modifications, seems to us more suitable. To enable a certain degree of differentiation to be made in these rates applicable to different classes of tickets, the percentage rates may be graded on a very broad basis; we suggest that there should be not more than three grades. We consider that rate of the tax can be reduced in some States for the lowest class of tickets. (Paragraphs 6—8).

(2) *Exemptions from tax.*—We consider the scheme of exemptions as it obtains today is needlessly complicated from the point of view of Government and needlessly harassing from the point of view of those who provide the entertainment. One very widespread result of this has been that eager amateurs and philanthropic organisers have their enthusiasm damped at every stage. As about 90 per cent. of the revenue from entertainment tax is derived from the cinema, we are of the opinion that, with little or no effect on revenue, the whole scheme of exemptions would be rendered simpler if entertainments were divided into 'professional' and 'non-professional', and the latter totally exempted. So far as the 'professional' sector (which would include the whole of the cinema) is concerned, exemptions could be granted only where the proceeds of the particular entertainment are devoted to a philanthropic or charitable purpose. We suggest the establishment of small non-official advisory committees to assist Government in deciding exemptions. (Paragraph 8)

45. *Tax on Prize Competitions.*—In the tax structure of States, this tax is of minor importance. The legislative measures pertaining

to prize competitions and lotteries aim primarily at regulation and control and secondarily at taxation and revenue. Experience of Bombay has shown how both control and taxation can be avoided if sought to be imposed by individual States. Control over prize competitions and lotteries can be effective only if it is imposed on an all-India basis. We therefore recommend that the regulation and taxation of prize competitions and lotteries should be taken over by the Central Government. The receipts from the tax can either be retained by the Centre or, if preferred, distributed among the States. (Paragraph 11)

46. *Betting Tax.*—We have no special comments to make on the rates or on the arrangements for the collection of betting in different States. We however recommend that the tax should be levied on all stake moneys including the winnings and not on winnings only as at present in a few States. (Paragraph 14)

47. *Electricity Duties.*—The total cost of electrical power (inclusive of the tax) in some of the typical industries does not exceed two per cent. of the total cost of manufacture. We therefore find it difficult to agree that even a low rate of tax is unjustifiable if it is levied on the consumption of electricity for industrial purposes. (Paragraph 20)

In regard to rates of the duty, the main considerations are—(1) on lights and fans the rates should be reasonably low; (2) on other domestic appliances, they should be lower; and (3) on industrial consumption they should be lowest of all and in fact extremely low. (Paragraph 22)

There are certain industries where the power costs constitute a substantial item of the cost of manufacture. The rate of levy has to be specially low for them. For cottage and small scale industries, specially low rates (or even exemption) would be justifiable in order that these may adapt themselves to improved methods of production. (Paragraph 24)

48. *Registration fees.*—Registration fees are in the nature of specific charges for services rendered by the State and in fixing the rates this principle should be broadly kept in mind. (Paragraph 27)

49. *Tobacco Duties.*—Several complaints have been received by us about the unduly heavy burden of the Central, State and local taxes on tobacco and tobacco manufacture. The need for ensuring proper co-ordination between the different taxes on tobacco levied by the different authorities is obvious. We consider that such co-ordination can be best evolved through the Inter-State Taxation Council. (Paragraphs 28–32)

50. *Sugarcane Cess.*—Entry 52 of the State List relating to “taxes on the entry of goods into a local area for consumption, use or sale therein” was not, in our view, intended to be made use by the State Government as authority for taxing raw materials of industries. We consider that any extension of the use of this entry by State Governments for the purpose of taxing agricultural or mineral products or raw material would for many reasons be undesirable. We recommend the reservation of this entry for utilisation by local authorities like municipalities, village panchayats, etc. (Paragraph 35)

51. *Raw Jute Cess*.—Under the scheme of sales tax recommended by us, it will no longer be possible for a State to levy this tax at a rate higher than one-fourth of an anna. (Paragraph 37)

52. *Inter-State Transit Duties*.—We are in agreement with the principle that these duties should be abolished within a reasonable period and endorse the view that the States which have been levying them should make every possible effort to make up the loss in revenue by utilising other sources of taxation. (Paragraph 40)



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Land Revenue, Agricultural Income-tax, Irrigation Charges and Betterment Levy

CHAPTER IV.—PROBLEMS OF FUTURE POLICY AND THE CHANGING SIGNIFICANCE OF LAND REVENUE

53. The significance of land revenue as an item of contribution to the exchequer and as an item of burden on the agriculturist, has undergone very substantial modification since the early days of the introduction of the land revenue systems. First, there have been the vast changes in agricultural economy, including the big upward movements of agricultural prices, in the perspective of which land revenue has shrunk in dimensions. Secondly, there has been the transformation of a simple fiscal system with land revenue as its main feature into the complex system of the present day in which income-tax, customs, excise and the many State taxes have come to occupy a far more important place than that occupied by land revenue. (Paragraph 1)

54. An agricultural income-tax will undoubtedly be significant as making land taxation as a whole, inclusive of land revenue, more equitable; but it obviously cannot replace land revenue in the sense of constituting roughly an equivalent source of income for the State Governments. (Paragraph 3)

55. The general adoption of a system such as prevails in Travancore-Cochin, whereby certain flat rates of tax on land are combined with the levy of an agricultural income-tax, is equally out of question as an alternative to the present system of land revenue assessment. (Paragraph 4)

56. Sales tax on primary agricultural producers when they sell their crops will give rise to several administrative and financial difficulties and for that reason the replacement of the land revenue system by such a tax is not feasible. (Paragraph 5)

57. Where assessment in two different areas are very dissimilar, though the areas themselves are comparable in all significant aspects and the disparity in assessment is due to the widely different periods at which the areas were settled and resettled, a special surcharge for equalising the levels of assessment or for reducing the disparity between them would not be open to the same objection as surcharges in general. (Paragraph 7)

58. Similarly, a surcharge on the basis of the largeness of holdings or of its assessment, or one related to the nature of crop grown, would be less objectionable if locally levied with reference to varying local conditions of the village, taluka, or other local area concerned than one super-imposed on a State-wide basis and with a State-wise uniformity of rates and exemptions on the present pattern of land revenue assessment. (Paragraph 7)

59. A sliding scale which aims at making readjustments over relatively long intervals such as a period of ten years, and over relatively large areas, such as an entire State or one whole homogeneous

region of the State, is more suitable than a sliding scale of revenue correlated to prices in a small local area varying from year to year. (Paragraph 7)

60. The two major events of the last few years *viz.*, land reforms and integration, had one common effect, namely, that of tending to bring the basic structure of land tenure and in relation to them of land revenue, into very substantial conformity with the pattern which existed in ryotwari States. In this way, the major diversity in the land revenue systems of India which were based on fundamental differences in tenures is now fast coming to an end. (Paragraph 10)

61. While examining the future of the periodical ryotwari settlement, it may be noted that the smooth course of that system seems to have ended during the depression of the thirties. The main stress under which the orthodox system of revenue settlements has tended to break down is that of price fluctuations. (Paragraph 11)

62. Settlement and re-settlements are essentially operations for a small unit over a long period with price as only one of the many considerations involved. For purposes of future policy, however, the original settlement must be distinguished from the subsequent revision of that settlement. (Paragraph 13)

63. The initial settlement, including in that term the combined operations of survey, classification and fixation of assessment has to be undertaken separately for each of the units in large tracts of the country where they have not so far been undertaken. But resettlement stands on a different footing altogether. (Paragraph 13)

64. Since the early days of British rule, the burden of land revenue has steadily and progressively tended to decline, if the revenue receipts are compared to the changes in the price levels of food-grains. With the spread of railways, irrigation and commercial crops, which tended to increase production, the long-run trend has been in the direction of a steady, and latterly drastic, reduction in the burden of land revenue. (Paragraph 17)

65. While, on the whole, agriculturists may have benefited through steadily rising prices, at any given moment, those who cultivated lands which had been resettled recently are in this respect worse off than those occupying lands resettled many years ago. Disparities of this type have been accentuated by the postponement of resettlement as a result of the depression and the War. The disparities can be reduced by a re-adjustment of assessments related to the dates of resettlement or, more accurately, of the periods taken into account at resettlement for fixing the price levels on which, among other things, the revision is based. (Paragraph 18)

66. When price data are collected for this purpose, it is not necessary to go down to very small geographical units. Experience has indicated that it is the broad changes in the price level which have been significant in relation to the burden of land revenue. (Paragraph 19)

67. While it cannot be said that the price received by the agriculturist in every area corresponds very closely to the prices in the

main marketing centres of the State, it can reasonably be assumed that the range of variation will not be wide. (Paragraph 19)

68. The most significant factor affecting the burden of land revenue is the general level of prices. (Paragraph 20)

69. Both administrative and economic considerations point to the need for certain modifications being made in the present system. (Paragraph 21)

CHAPTER V.—FUTURE PATTERN OF LAND REVENUE AND AGRICULTURAL INCOME-TAX

70. In many matters of important detail, there is bound to remain a diversity in the land revenue features of different States; but it will be both advisable and feasible to aim at a minimum degree of uniformity in more basic matters like nature of tenure, manner of initial fixation of assessment, the broad method of revision of assessment and the limits of increase or decrease within which it will operate, the place of land revenue *vis-a-vis* local bodies, and the place of agricultural income-tax *vis-a-vis* land revenue. (Paragraph 2)

71. The convergence to a broad common pattern in which individual differences are accommodated is already discernible in recent developments. (Paragraph 3)

72. The basic pattern of settlement and revision, while largely similar to the existing ryotwari pattern should make a departure from it in significant respects. It is especially important that revision of settlement should be divorced from small units and local prices and be based instead on the State, or within the State on homogeneous regions. (Paragraph 4)

73. Within the limits set for revision, the 'standardised assessment' should continue indefinitely. The State Governments should not levy surcharges over and above it and all surcharges on the standardised assessment should be by local bodies for local services. (Paragraph 5)

74. Initial settlement including survey and classification is indispensable and should be undertaken in all areas where one or more of these operations still remain to be conducted. (Paragraph 6)

75. An agricultural income-tax on the higher agricultural incomes should be adopted by all the States which have not yet done so; this is necessary because of the greater equity it brings into the system, if not of the revenue it brings to the exchequer. (Paragraph 7)

76. The eventual aim should be to merge agricultural income with non-agricultural income and levy one income-tax. As a first step in this direction, the Union should make it possible for the States to levy a surcharge on agricultural income-tax with reference to the non-agricultural incomes of the assessee. (Paragraph 8)

77. All agricultural incomes above Rs. 3,000 a year should be made liable to the agricultural income-tax. (Paragraph 10)

78. The fact that agricultural and non-agricultural incomes are treated as two distinct compartments, State and Union, for purpose of taxation, gives rise to many anomalies. A start should be made

towards eventual integration of the two types of income. (Paragraph 11)

79. It is easier to provide for a uniformity in the exemption limit of agricultural income tax than in the rates. Rs. 3,000 is a reasonably adequate limit of exemption and all the States should adopt this limit. (Paragraph 11)

80. As a first step towards the reduction of anomalies arising from the separate treatment now accorded to agricultural and non-agricultural incomes, all States should adopt a system of surcharges on agricultural income tax on the basis of the assessee's non-agricultural incomes, if any. (Paragraph 12)

81. In fixing the rates, care will have to be taken to ensure that the agricultural income-tax together with the surcharge and the non-agricultural income-tax does not exceed whichever of the following is lower, viz.,

- (i) agricultural income-tax which would have been payable had the whole income—agricultural and non-agricultural—been treated as agricultural, and
- (ii) non-agricultural income-tax which would have been payable had the whole income—agricultural and non-agricultural—been treated as non-agricultural. (Paragraph 12)

82. While survey, classification and initial settlement as evolved with minor differences in many States, must be regarded as indispensable operations, the same cannot be said of revision settlements in the manner in which they have been conducted in the past. (Paragraph 14)

83. It is clearly indicated as the proper course of future policy that (a) the present levels of assessment should first be standardised over the State as a whole and (b) the standardised assessment then revised, State-wise or region-wise, at reasonable intervals. (Paragraph 14)

84. The process of standardisation is one of reducing disparities to the extent practicable, and not by any means one of eliminating them. There is enough justification for not attempting to alter the existing assessment levels too greatly in spite of marked disparities between them. (Paragraph 15)

85. Standardisation in the broad sense should be State-wide, simple and *ad hoc*. All the talukas or other areas concerned should at one and the same time be individually taken into account for purposes of the operation. (Paragraph 15)

An *ad hoc* method of ready applicability would consist in grading the increases in relation to the price period relevant to the settlement or resettlement at which the existing assessment was fixed. (Paragraph 15)

86. A simple but adequate formula would consist in dividing all the settlement units in the State into four categories according to the considerations mentioned above; of these categories the earliest would be made to bear an additional amount of 25 per cent, and the latest none at all. As for the two intermediate categories, the earlier would have an addition of 12½ per cent. and the later of 6½ per cent. (Paragraph 15)

87. The details of standardisation will have to be worked out by each State in the context of its own conditions. So far as current settlements or resettlements are concerned, standardisation will also necessitate legislative steps for altering the assessment during the period of guarantee. (Paragraph 15)

88. Once the assessment levels have been standardised, the land revenue should be revised once in ten years with reference to changes in the price level.

The method of revision adopted should be such that it can be carried out more or less automatically on the basis of the price levels without the intervention of an elaborate administrative machinery operating on small units over long periods at disproportionate cost. (Paragraph 16)

89. It is obvious that full, or even nearly full, adjustment to take account of changes in prices will not be justified. Some degree of normal fluctuation is always to be expected and moderate fluctuations need not be allowed for. Even when appreciable variations take place, it would not be right to raise or reduce the demand proportionately, for the significant factor in determination of the incidence of the land revenue demand is the change in the net income or net produce or profit of the cultivator and not the value of his gross produce. (Paragraph 17)

90. A practical method of allowing for changes in costs of production, which would normally occur in the same direction as changes in prices, would be to make adjustments only up to a moderate proportion of the price changes. This would be particularly suitable during a phase of rising prices. (Paragraph 17)

91. Normally, it would suffice if prices of the main foodgrain cereal of a region were taken as the basis for measurement of price changes. In certain regions, however, the production of a commercial crop may predominate, in which case the principal crop of the region may be taken for the purpose. Where there are commercial crops and foodcrops, it may be necessary to have a composite index. (Paragraph 19)

92. It should be possible to relate the index to the whole area of the State or, where that area happens to be too large, to each of a very few regions into which the State may be divided. (Paragraph 19)

93. For the first revision of the standardised assessment, the base would be the period of years to the prices of which the standardised assessment is *assumed* to be related. (Paragraph 20)

94. It is suggested that the base should be regarded as a period of not less than ten years and not more than twenty years immediately preceding the standardisation. (Paragraph 20)

95. The current period for the first revision would of course be the ten years intervening the standardisation and its revision. For all subsequent revisions, the position is quite simple. For any revision which is about to take place, the ten years immediately preceding would be the current period, while the ten years preceding the previous revision would be the base. (Paragraph 20)

96. A change in prices by 25 per cent. in either direction should not call for any adjustment in the land revenue demand. If prices rise by more than 25 per cent., it is suggested that increases in land revenue should be effected for a minimum of $3\frac{1}{8}$ per cent. (one-half anna in the rupee) to a maximum of $12\frac{1}{2}$ per cent. (two annas in the rupee). If prices decline, reductions in land revenue should be effected from a minimum of $6\frac{1}{4}$ per cent. (one anna in the rupee) to a maximum of 25 per cent. (four annas in the rupee). (Paragraph 21)

97. There are certain residual features of resettlement, however, which will need to continue, such as, for example, when dry land is converted into irrigated land, irrigated land becomes dry land or land has either deteriorated or become uncultivable through natural causes. The administrative machinery will have to continue to deal with such contingencies. (Paragraph 22)

98. Surcharges on land revenue, as standardised and from time to time revised, should be wholly left for local bodies to levy and for local bodies to utilise. (Paragraph 23)

From land revenue, whether at the present levels or after standardisation and further revision, an amount of not less than fifteen per cent. should be apportioned to the local bodies (village panchayats etc.) concerned, the allocation being out of the revenue collected in the area of the particular local body. (Paragraph 23)

99. If, at standardisation or subsequent revision, an appreciable increase in land revenue results from the operation, as much as possible of the additional revenue should be passed on to the local bodies or be utilised for the execution of local works etc. One way of doing this would be to increase the percentage of the land revenue allotted to local bodies. (Paragraph 23)

100. The suggestion for complete transfer of land revenue to the local authorities does not have any special merits. (Paragraph 25)

101. With the adoption of the scheme for standardisation of assessment, the States where the problem of initial settlement does not arise, should be able to spare their trained staff to the States where such settlement operations are necessary but the trained staff is lacking. It is emphasised that a concerted effort of this kind, based on the co-operation of the better placed States with those not so well-placed in regard to the availability of trained personnel, is of extreme importance for the early completion of the essential tasks of survey, classification and initial settlement in those areas in which these have not yet been undertaken. (Paragraph 26)

102. It is not considered necessary to recommend any particular basis for determining the land revenue at the initial settlement. It is considered to be best that every State which has to undertake the initial settlement should, unless there are good reasons to the contrary, adopt the basis that is in operation in the adjoining State or area. This would tend to make the assessments of land revenue more uniform in contiguous tracts and to some extent reduce the disparities that would otherwise arise from the adoption of widely differing bases of assessment. (Paragraph 27)

103. The scheme of standardisation of assessments on a State-wide basis cannot be implemented by States which have recently adopted

legislation for the abolition of intermediaries and are realising as land revenue the rents previously paid by tenants to the landlords, unless certain modifications are made in their present systems of land revenue. Before such States adopt the scheme, it will be necessary to separate the element of assessment from the rest of the total revenue now collected. Such separation would be merely notional. (Paragraph 28)

104. The method of collecting land revenue in kind through co-operative societies should be workable, provided efficient co-operative societies are in fact available. (Paragraph 30)

105. The present administrative machinery for the collection of land revenue has been evolved through years of experience, trial and error, and has on the whole been an efficient instrument of administration. (Paragraph 31)

Revenue Boards are useful and should normally continue. Their abolition will in any case necessitate the establishment of Revenue and other Tribunals for appellate work, as has been done in Bombay, for example. (Paragraph 31)

106. The experiment of replacing village officials by Government servants has been tried in certain States; but in some of them, instead of leading to greater efficiency, it has resulted in slackness in revenue collections. (Paragraph 32)

107. There is merit in the suggestion that the collection of land revenue should be entrusted to the village panchayats on a commission basis. This may be done whenever it is feasible; but it will be practicable in only a limited number of instances. (Paragraph 34)

Hereditary village officers should be replaced by stipendiary village officers selected from among persons holding lands in the respective villages on the basis of their status and education. (Paragraph 34)

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CHAPTER VI.—ASSESSMENT OF NON-AGRICULTURAL LANDS

108. In many States, adequate attention has not been given to the taxation of unearned incomes derived from lands put to non-agricultural uses. The increase in value of non-agricultural lands is generally not due to any expenditure or effort on the part of the owner, but either to the growth of population, extension of towns and railways or to provision of similar other facilities. We recommend, therefore, that a regular system of non-agricultural assessment should be introduced in all States. (Paragraph 11)

109. The non-agricultural uses are mainly either for construction of buildings or factories. At present, there is no uniformity in the basis and rates of assessment. The levy of the non-agricultural assessment will have to differ according to the use to which the land is put. Such assessment will have to be related to the market value of the property and, where this is not feasible, to its annual value. (Paragraph 11)

110. There is at present no uniformity in the term of settlement. As market values of land fluctuate from time to time, it is advisable to fix non-agricultural assessment for a fairly reasonable period—

neither too short nor too long. Statutory provision should, therefore, be made for periodical revision of these rates. (Paragraph 11)

111. In several States, owing to customary usages and practices, the building sites in village *abadis* (demarcated areas) are exempt wholly or partially from payment of assessment. The present exemption of such sites from payment of assessment may continue as heretofore with a view, firstly, to develop them and, secondly, to enable the village panchayats to realise some revenue from such sites. (Paragraph 11)

112. In old towns and cities, there are certain areas held wholly or partially free from agricultural or non-agricultural assessment on historical or contractual grounds. Recently, State Governments have resumed several alienations of land (and cash) in pursuance of a general policy for abolition of the alienations of revenue. As a rule, it would be desirable to withdraw concessions of land revenue in such cases also; but each case of resumption should be considered on its merits. (Paragraph 11)

113. It is not necessary to allow some concessions in the case of revision of ground-rents in localities used for residential purposes for lower income-groups. (Paragraph 11)

114. The system of levying penalties in lieu of or in addition to non-agricultural assessment should be discouraged and replaced by a regular tax on non-agricultural lands. (Paragraph 11).

115. As in the case of the assessment of agricultural lands, there should be provision for suspension and remission of non-agricultural assessment when buildings are affected by fire, floods, storm, etc. and become uninhabitable. (Paragraph 11)

116. In some States, a part of the receipts from the non-agricultural assessment is handed over to the local authorities. It is desirable that municipalities should benefit financially from the receipts realised as a result of increment in the value of sites in the urban areas. A part of the receipts from such assessment should be given as grants to local bodies within whose areas they are collected. (Paragraph 11)

CHAPTER VII.—IRRIGATION AND BETTERMENT CHARGES

I. Water Rates

117. The conventional distinction between productive and protective schemes has largely disappeared in recent years and there is reason to believe that public outlay on irrigation will hereafter be determined on the basis of total benefits created rather than on immediate cash returns. As a general principle, the future systems of water charges should be such as to promote economy in the use of canal water and create conditions which will make the maintenance and development of irrigation schemes possible on a larger scale. (Paragraph 12)

118. While it is difficult to make a general statement regarding the nature of the water rate as it combines within itself both the tax and

service elements in different areas, its assessment may be regulated according to three different principles:—

- (i) no loss and no profit;
- (ii) no profit and some loss; and
- (iii) some profit and no loss.

While exceptional cases could be provided for, water rates must ordinarily cover the maintenance charges and schemes other than in scarcity areas should not involve loss to general revenue. At present, in most States, the rates are fixed with reference to maintenance costs. While this system works well generally, it is open to the risk of loss in certain areas where the demand for canal water varies considerably from year to year. On this ground alone, a compulsory charge is justified, provided it carries with it an assurance that water will be supplied when required by the cultivator. The principle, however, cannot be justifiably extended to cover all the charges on irrigated land (maintenance, debt charges and other overheads) as these will prove burdensome to cultivators. The compulsory fee, therefore, will have to be related mainly to maintenance costs. Similar considerations would apply to minor works the maintenance of which is attended to regularly. (Paragraphs 14—17)

119. Besides the compulsory fees or cess, the water rate that is voluntarily payable on supply of irrigation water should be so fixed as to cover the debt charges and overhead expenses on a project. Subject to this basic principle, different considerations such as quantity of water, value of crops, ability to pay, etc., enter into the determination of water rates. It is obvious, that while fixing rates for supply of water for irrigation, no single basis which would meet the different conditions and requirements of the various States can be devised. (Paragraphs 18-19)

120. Normally, the scope for the State earning profits on irrigation schemes is very limited and confined to a few old schemes, as in most of the recent projects the costs of maintenance are so great that no margin is left for earning profits from water rates. An allied question is the period for which water rates should remain in force. Water rates fixed on a long-term basis do not take account of variation in prices. The rates should be reviewed (and revised when necessary) at not too long intervals. (Paragraphs 20-21)

121. Any meticulous equalisation of rates between different sources of water supply is not practicable. There is, however, scope for minimizing the present differences in rates within the same class of supply. (Paragraph 22)

122. 'Concessional' or 'incentive' rates would be necessary in the initial stages of development and in certain areas. Such concessions, however, would apply only to the supply rate or the voluntary water rate and not to compulsory cess which is intended to cover minimum maintenance costs. Where such concessions are provided, it would be necessary to keep a strict watch and to undertake periodic enquiries into their effects so that normal charges are restored as soon as cultivators start realising benefits. (Paragraph 23)

123. The question of transferring minor schemes to local organisations might work well in the case of smaller schemes like wells and tanks, but would be difficult in the case of more important schemes, the maintenance of which should be the responsibility of State departments. Village panchayats, however, may be utilised for collection of rates and cesses and for proper distribution of water. (Paragraph 24)

II. Betterment Levy

124. The quantum of the levy may be fixed at a maximum of 50 per cent. of the increase in value of land due to irrigation, although the actual rates may be fixed at a level that will continue to afford an adequate incentive for irrigated farming. (Paragraph 30)

125. The maximum limit naturally applies to increase in capital or capitalised value of land and not to the annual increment. The recovery of the levy again, should not impose a heavy burden by way of large instalments. Its recovery should, therefore, be spread over a reasonably long period. (Paragraph 31)

126. No provision for adjustment to price changes would seem to exist in various State enactments, although, at times, as in the case of Andhra, very wide powers to grant exemption are provided. It would be advisable for all States to provide specific relief in times of a steep fall in prices. This may take the form of postponement of instalments. Where, however, the fall is not merely steep but continuous, outright remissions may have to be granted. In the event of a sustained and substantial rise in price, there is need for upward revision. (Paragraph 32)

127. The tax cannot be imposed on certain types of minor works like wells, tanks, etc., especially where the cost is recovered through cash and labour contributions. But tube-wells and some of the larger schemes in this class provide substantial benefits, while at the same time Government incur considerable expenditure. There is hence justification for an additional levy. Even here, an appropriate method of recovery is to make a small increase in the water rate. (Paragraph 33)

Local Taxes

CHAPTER II.—APPROACH TO LOCAL FINANCE AND TAXATION: GENERAL RECOMMENDATIONS

128. In our view, a cautious policy would be preferable to one based on undue optimism as to the ability of village panchayats to discharge the variety of functions usually provided for in the law which constitute them. Special caution is called for in entrusting to them the promotion of the productive, distributive and other essentially socio-economic activities of the rural areas; these are functions more appropriately discharged by co-operative societies and should, therefore, as a rule, be excluded from the purview of village panchayats. We also consider it very necessary that instead of the multifarious functions which now figure in the enactments, a few well chosen and clearly defined duties should be assigned to the panchayats and that these should be co-ordinated with similar functions assigned to district local boards or other rural boards. In respect of items such as village schools, village communications, village sanitation and water supply, minor irrigation works, etc., we believe there is very considerable scope for associating panchayats more effectively with the local plans of development. (Paragraph 5)

129. It is very doubtful whether district local boards can any longer continue in their existing form. Several questions arise in this connection. Should district local boards be converted into bodies elected by the panchayats themselves when the latter are sufficiently widespread? Alternatively, should they be abolished and replaced by smaller bodies with more restricted territorial jurisdiction? In the latter case what should be the size and constitution of the smaller bodies? These are matters to be decided by the State Government in the light of the differing circumstances of different States. Whatever shape, in different States, the successor bodies may take, their functions, finances and tax powers should be co-ordinated with those of the village panchayats, and the latter treated as the more basic type of organisation whose growth and efficiency it will be one of the functions of the intermediate body to safeguard. The area of this unit should not be so small as to militate against efficiency and economy. State Governments should ensure that the intermediate unit is not only given adequate powers of taxation but, where necessary, is adequately financed from the resources of the State. (Paragraph 6)

130. A sound system of local finance should, as a rule, rest on a sound foundation of local taxation. (Paragraph 8)

131. It will be helpful to the development of village panchayats, if it is ensured that a panchayat need not, as soon as established, resort to taxation. During the period of initial growth, a substantial part of the finances required by each new panchayat should be placed at its disposal by the State Government. (Paragraph 9)

132. There is a feeling among local bodies that, because all the relevant taxes are in the State List, no 'local' tax is safe from a parallel tax levied by the State Government for the benefit of State revenues as distinguished from local revenues; it is a feeling which needs to be effectively allayed if a proper atmosphere is to be created for the efficient functioning of local self-government and if proper leadership is to be attracted to the institutions of local self-government. It is, therefore, both desirable and necessary that certain taxes should in effect be reserved for being utilised solely by or for local bodies. (Paragraph 11)

133. We do not consider that an amendment of the Constitution is necessary to ensure the reservation of certain taxes exclusively for local bodies. We recommend however that the taxes indicated hereinafter should be allowed to be developed only by the local bodies or for them. Where the State Governments are at present utilising any of these taxes for the purposes of the State revenues, they should gradually withdraw from the field and meanwhile allot the proceeds from the taxes to local bodies. (Paragraph 12)

134. The taxes we recommend for exclusive utilisation by or for local bodies are:—

- (1) Taxes on lands and buildings;
- (2) Taxes on the entry of goods into the area of a local authority for consumption, use or sale therein, popularly known as octroi;
- (3) Taxes on vehicles other than those mechanically propelled;
- (4) Taxes on animals and boats;
- (5) Taxes on professions, trades, callings and employments; and
- (6) Taxes on advertisements other than advertisements published in the newspapers. (Paragraph 13)

135. In addition to the six taxes specified above, we consider two other taxes, viz., the theatre or show tax and the duty on transfer of property (levied along with the stamp duty collected by the Government) as suitable for utilisation by local bodies and we recommend that the State Governments should permit local bodies to levy these two taxes. (Paragraph 15)

136. We also recommend that two other taxes, viz., (i) taxes on goods and passengers carried by road or inland waterways, and (ii) tolls, should be permitted to be levied by local bodies. The first may be imposed as a complementary levy by those local bodies for whose benefit the terminal taxes on goods or passengers carried by railway, sea, or air are levied by the Union Government. The second may be levied in respect of new bridges on which expenditure has been incurred by the local body. (Paragraph 15)

137. The above recommendations should not be construed as precluding the transfer of other taxes to any local body, wherever appropriate, if the State Governments consider such a course desirable. (Paragraph 15)

138. Local bodies of even the same category differ greatly in individual efficiency; there are even wider differences between different

categories. These differences should be taken into account in relating the suitability of particular taxes to the capacity of particular local bodies. (Paragraph 16)

139. For ensuring the evolution of a proper system in each State, the following considerations are commended to the notice of the State Governments:—

- (i) It is as essential to ensure the devolution of suitable taxes to local bodies as to avoid the transference of unsuitable ones.
- (ii) The devolution should be sufficiently prompt, flexible and diversified. Where a general sanction would be sufficient, the obtaining of sanction in each individual case should not be insisted upon.
- (iii) Devolution should take sufficient notice of the different degrees to which different powers could be devolved on different categories of local bodies.
- (iv) Overlapping and un-coordinated tax jurisdiction should be avoided. (Paragraph 16)

140. We are of the view that, normally, grants-in-aid should be preferred to assignments of shares of taxes as a method of financing local bodies. The proceeds from motor vehicle tax and land revenue should, however, be shared. Not less than one-fourth of the proceeds from the motor vehicle tax should be distributed to the local bodies, especially municipalities and district boards. Likewise, not less than fifteen per cent. of land revenue should be distributed to the village panchayats and rural boards. (Paragraph 18)

141. Potentially, the income from public undertakings of a commercial nature is a significant item of municipal revenue, though actually only a few municipal corporations and municipalities have developed such activities. In certain states, there has been an actual curtailment of the available sphere. We are of the view that every encouragement should be given to municipalities and other local bodies to develop and expand their non-tax sources of revenue; these need not be limited to the more orthodox items such as licence fees, market charges, etc., but should extend to public utilities. State Governments should not, except as a last resort and for compelling reasons, take over such services from the municipalities concerned. (Paragraph 20)

142. We recommend the adoption by each State Government of a system of grants-in-aid based on the following principles:—

- (1) There should be a basic 'general purposes' grant for each local body other than the bigger municipalities and corporations;
- (2) the local bodies eligible for such grant within each category (municipality, local board, panchayat, etc.) should be classified into a few simple divisions based on population, area, resources, etc., and the grant itself related to these factors as well as to the size of the normal budget of the local bodies;
- (3) the basic grant should be such that, after taking into account its own resources, the local body will have fairly

adequate finance for discharging its obligatory and executive functions;

- (4) the basic grant should be assured over a reasonable period of years—say three or five and, save for exceptional reasons, should not be subject to alterations from year to year within that period; and
- (5) there should in addition be specific grants (annual and other) which, as at present, will be for particular items and services. These should be conditional on (a) the particular service being maintained at a prescribed level of efficiency and (b) the local body exploiting its own resources to the extent indicated by Government from time to time. (Paragraph 21)

143. Contribution in terms of manual labour should be held to justify a Government grant-in-aid as much as contributions in cash from a panchayat. In no case, however, should manual labour be demanded or accepted in lieu of payment of tax; a "labour tax" should be ruled out altogether as a possible feature of local or other taxation. (Paragraph 22)

144. Among the more pressing needs of municipalities is that of capital funds for undertaking long-deferred projects of water supply, drainage, slum clearance, etc. But the scope for municipalities and even the newly established municipal corporations to raise loans on their own credit is limited. The assistance of State Governments is essential. We recommend a much more general adoption of a system of Government guarantee of municipal loans. In addition to loans, the smaller municipalities and even some of the bigger ones may have to be granted subsidies. We assume that adequate funds for this purpose will be provided in the next Five Year Plan. (Paragraph 23)

145. Besides the six taxes recommended for reservation for local bodies, the theatre or show tax and the duty on transfer of property are suitable for levy by municipalities and municipal corporations. The Acts governing these bodies should contain provisions which ensure, and not merely enable, the levy of all these taxes. (Paragraph 24)

146. For making available additional revenues, different methods have to be followed in respect of different categories of local bodies.

- (1) Municipal corporations and bigger municipalities—additional tax powers should be transferred.
- (2) Smaller municipalities should be given additional grants. (Paragraph 24)

147. We consider the land cess and the duty on transfer of property to be the only taxes suitable for rural boards. Any additional finance required by them should be given by way of grants-in-aid. (Paragraph 25)

148. In respect of village panchayats, the general property tax, service taxes, land cess and the duty on transfer of property are the main taxes suitable. In addition, the power to levy the tax on vehicles, the profession tax and the theatre or show tax may be given to individual panchayats found suitable for the purpose by the State Governments. (Paragraph 26)

149. One of the greatest drawbacks of local bodies has been their inefficiency in tax administration. To remedy the situation, we recommend, firstly, that all municipalities should have chief executive officers in whom the executive powers and administrative responsibility should vest by statutory provision, and, secondly, that the chief executive officers should be selected and appointed by Government or by an independent statutory board. (Paragraph 27)

150. There is a danger of lack of co-ordination arising from the centralisation of cadres. Dispersal of responsibility will ultimately strike at the efficiency of municipal administration. We recommend that even when State cadres are created, the executive responsibility should vest in the chief executive officer of the municipality and the entire staff should be under his control. (Paragraph 30)

151. The staff recruited should not merely be well-trained but adequately paid. The State Government should, where necessary, meet a part of the establishment costs. (Paragraph 30)

152. A State-wide valuation department should be created for valuing the properties in municipal areas. (Paragraph 31)

153. State Governments have a positive role to play in ensuring the proper functioning of local bodies, especially those in the rural areas. The goal of State effort as well as the purpose of State control should be the development of local self-governing institutions into efficient instruments of administration, capable alike of formulating policies and of executing them. (Paragraph 32)

CHAPTER III.—LOCAL TAXES

Property Tax and Service Taxes

The fixation of the rental value of residential and rented out buildings, which form the bulk of the buildings in towns and cities, is simpler than the determination of their capital value. Further, capital values of properties fluctuate to a more significant extent than rental values. The levy of the tax on the basis of actual or reasonable rent is a levy on the actual or potential income from the property and to that extent is a more equitable method of taxation than one based on capital value.

154. We recommend that the annual value, based on the rent at which properties may reasonably be expected to be let, should be the normal basis for the levy of property tax, subject to the basis of capital value being adopted in special cases. Panchayats, however, may normally levy the house tax on the basis of the capital value of the houses; in villages this is easier to determine than rental value on account of the fact that most of the houses are owner-occupied. (Paragraph 10)

155. The right to assess on a "reasonable rent" is a valuable safeguard against collusive fixation of actual rents at a lower level. There should, therefore, be no change in the present legal provisions and general practice. (Paragraph 5)

156. Where the rent of buildings has been fixed under a rent control law, the controlled rent should be assumed to be the 'reasonable' rent. (Paragraph 6)

157. Vacant lands in urban areas which are not appurtenant to buildings and which are not used for agricultural purposes should be assessed to property tax adequately. Either a percentage of the capital value of such lands may be taken as their annual rental value or the tax may be levied at a percentage of their capital value. (Paragraph 10)

158. The system of levy of property tax at concessional rates on costly buildings prevalent in Assam, Bihar, Orissa and West Bengal should be abolished. (Paragraph 13)

159. A theoretical pursuit of progression will imply a greater burden on those whose main form of possession or source of income is immovable property as distinguished from other types of possessions or investments. Exemptions and lower rates (on the lower slabs) will, for the smaller municipalities, imply a loss of revenue which it will be impracticable to make up by higher rates on the relatively few bigger properties. Normally, therefore, progression cannot be suitably introduced as a feature of property tax levied by local bodies. However, an element of progression in rates may be adopted by municipal corporations and the bigger municipalities, subject to certain conditions. (Paragraph 14)

160. Properties used for religious, charitable and educational purposes may continue to be exempted from property tax, but the principles of such exemption should be specified in the relevant enactments and not regulated by executive orders. The lists of properties exempted from the tax should be scrutinised from time to time and the lists should be open for public inspection. (Paragraph 15)

161. Very low rental values may be exempted from property tax, provided the owners concerned do not own any other buildings or lands assessed to the tax and are not liable to pay profession tax or income-tax. (Paragraph 16)

162. No concession need be granted in the assessment to property tax of owner-occupied properties. (Paragraph 17)

163. Remission of property tax need not be given in respect of vacant buildings where the period of vacancy is less than 90 consecutive days in a year; the remission, when allowed, should be limited to a maximum of one-half of the tax due. (Paragraph 18)

164. All Port Trust properties may be assessed to municipal property taxes at a percentage of the gross earnings of the Port Trusts as in Madras, since that is a simple and easy method to operate. The basic percentage for assessment may be four but provision should be made for increasing or decreasing it by a quarter per cent. for every per cent. of general increase or reduction effected in respect of properties belonging to other assesseees. (Paragraph 19)

165. In the case of Railway properties and other properties of the Central Government used for commercial or semi-commercial or industrial purposes, e.g., Posts and Telegraphs, the Central Government should pay to local bodies contributions equal to the amounts which would have been paid, had the general and service taxes been levied in full. Necessary legislation should be passed by Parliament to authorise such payments.

In respect of other properties of the Central Government, the principles recently adopted by the Central Government for making payments in respect of "service charges" with effect from the 1st April 1954 may be followed, but the principles should be liberally interpreted and applied. (Paragraph 26)

166. In all States, service taxes should be collected even in respect of Properties exempted from the general property tax. (Paragraph 28)

167. Where a separate tax is levied in respect of a service, the receipts should normally be such as to cover a substantial part of the expenses, if not the entire cost. But there is no need to lay down any hard and fast rule. (Paragraph 28)

168. The tax on lands and buildings should effectively take its place as the main source of income of municipalities in all the States. As far as practicable, it should be levied by all local bodies. For this purpose, the levy of this tax should be statutorily compulsory in all municipalities at a minimum rate of say not less than three to six per cent. of the annual value. The State Government may also prescribe maximum rates for the tax so that the municipalities may be free to determine the rate from time to time subject to the maximum, without the necessity of obtaining specific sanction for every change in the rate of the tax. For the same reason, State Governments may take statutory powers to compel municipalities to levy the property tax at adequate rates. (Paragraphs 29-30)

169. Property tax should be recognised as pertaining to the local sphere of revenue; it should be developed for, and as far as possible by local authorities. The Governments of Bombay and Punjab should, therefore, reduce their rate of tax as and when and to the extent that the municipal bodies concerned increase the rate of their tax (or as the case may be—in Punjab—levy it for the first time). The process may be spread over five years, but at the end of that period, the Governments should cease to levy the urban immovable property tax for State purposes. Meanwhile, they should induce or compel the municipalities concerned to raise the rate of their property tax correspondingly. (Paragraph 32)

170. In Punjab, till the State Government gives up the urban immovable property tax, there should be co-ordination in the assessment, etc., of the State and municipal taxes on properties. (Paragraph 34)

171. As property forms the base for more than one tax, there is need for co-ordination between the various taxes levied by different authorities.

172. For purposes of levy of income-tax on properties in municipalities, the Income-tax Department should almost invariably accept the valuation of buildings by independent State-wide agencies, the establishment of which has been recommended in Chapter II. (Paragraph 33)

173. To ensure that no undue burden, in the aggregate, is placed on the property owner, adjustments are necessary in concessions and deductions given in computing income from property assessable to

Income-tax. The deduction on account of part of municipal property tax representing charges for municipal services enjoyed by the tenant, is now limited to half the total annual municipal tax subject to a maximum of 12½ per cent. of the annual value. The 'maximum' limit should be dropped. (Paragraph 35)

174. *Betterment taxes and contributions.*—Effective aid from The State Government should be given to the smaller municipalities for putting through improvement schemes as well as for formulating and imposing betterment levies in connection with such schemes. (Paragraph 42)

175. *Betterment levies in connection with town improvement or town planning schemes,* while designed to recover not less than the cost of the project, should also aim at recovering 50 per cent. of the actual increase in value subsequent to the scheme. The provisions of the relevant Acts should be so amended as not to make the levy contestable in law on the ground that the increase in value may in part be due to reasons unconnected with the project.

176. *Taxes on transfer of immovable property.*—For local bodies generally and for urban bodies in particular, the duty on transfers of immovable property is a suitable item of taxation. The levy of the duty at a minimum rate of two per cent. of the capital value of the properties by all municipalities and municipal corporations should be made compulsory. The levy may be optional for village panchayats, district boards, notified area committees, etc. (Paragraph 48)

177. *Land Cess.*—The levy of land cess at the present low rates should be replaced by more appreciable surcharges on land revenue. Such surcharges should be the exclusive province of local bodies and should not, except during a short period of transition, be any longer levied by State Governments. (Paragraph 55)

178. The levy of a single consolidated land cess is recommended. Earmarked cesses are justifiable only when the earmarking has the effect of reducing resistance to an intended increase in the total cess. (Paragraph 56)

179. The rate of land cess in several States is low. A minimum rate of three annas on every rupee of land revenue is recommended. (Paragraph 57)

180. The agency which collects land revenue should also collect land cess, as is already done in most States. (Paragraph 58)

CHAPTER IV.—OTHER LOCAL TAXES

Octroi and Terminal Taxes

181. 'Terminal taxes on goods carried by rail, sea or air' should remain in the Union List, as the Union Government should have an effective voice in determining whether, in any individual case, the municipality is an area in which a terminal tax on goods, carried by railway, etc., can suitably be levied, an important criterion of suitability being the existence of features which make it possible to impose and enforce, under the entry in the State List, a parallel levy on goods transported by road. The Union Government should consider favourably the levy of a terminal tax on goods carried by rail,

sea or air in all municipal areas in which it can suitably be levied. They should adopt a responsive attitude in this matter and in suitable cases readily co-operate with the local authorities. (Paragraph 9)

182. Octroi is unsatisfactory; its elimination from the tax system of local bodies should undoubtedly be aimed at; but this is inevitably a long-term aim. It is impossible to conceive in the immediate future of alternative sources of local taxation which will give Rs. 11 crores odd of revenue which octroi today provides. Hence, attention should be confined to eliminating the more palpable evils of the octroi system. (Paragraph 10)

183. Octroi should be so designed as to curtail to a minimum, if not eliminate altogether, the occasions for refund, as some of the features connected with refund constitute one of the chief drawbacks of octroi. With necessary modifications incorporated, the Punjab system of 'Octroi without refunds' provides the basis for a workable solution. (Paragraph 11)

184. The following reforms should also be introduced in the system of levy of octroi:—

- (1) Octroi should ordinarily be levied on the basis of weight and not *ad valorem* since the latter adds to delay and harassment.
- (2) A model schedule should be prescribed by State Governments in all the States. This schedule should omit articles which involve undue harassment to small vendors (e.g., of vegetables, milk, etc.).
- (3) The collection of octroi should not, as it is at present in many municipalities, be virtually left in the hands of subordinate staff, but should be supervised frequently and effectively by the higher executives with a view to checking corruption and preventing harassment.
- (4) Increases in existing rates of octroi on articles of food should not, save in the most exceptional circumstances, be permitted by State Governments.
- (5) The introduction of terminal tax or switch over from octroi to terminal tax may be permitted in suitable cases in co-ordination with the Railway Board. (Paragraph 11)

185. The levy of a pilgrim tax on passengers by rail may be extended to all important places of pilgrimage. The Railway Board may take suitable measures for this purpose. At the same time, a parallel tax should be levied by the State Governments on passengers making use of road transport. (Paragraph 14)

186. A co-ordinated terminal tax at a low rate on long distance passengers—the limit may be, say 150 miles—by all forms of transport may be levied in cities with a population of over five lakhs. (Paragraph 15)

187. *Tax on professions, etc.*—As profession tax is to be regarded as a source of revenue belonging to local bodies, the Governments of Assam and Madhya Pradesh should either transfer the levy of the tax to the local bodies or, for such time as they continue to collect it

themselves, hand over the proceeds to the local bodies concerned. (Paragraph 23)

188. The relevant enactments should in all States be suitably amended so as to permit of the adequate utilisation of this tax by local bodies. (Paragraph 23)

189. District Boards need not be permitted to levy the profession tax. For panchayats, the levy should ordinarily be optional. in the case of municipal corporations and municipalities, the levy of the tax at suitable minimum rates should be compulsory. (Paragraph 24)

190. The maximum limit for profession tax per person per annum should be increased from Rs. 250 to Rs. 500. Article 276 of the Constitution should be amended accordingly. (Paragraph 25)

191. Profession tax should be assessed on the basis of income, the assessee being divided into a few classes on the basis of income, and the maximum tax payable by each class being fixed on a progressive scale by the State Governments.

Income from professions, trades, employments, pension and income from investments may be assessed to the tax.

Agricultural income should continue to be exempt from profession tax.

In West Bengal, the scope of the tax should be widened so as to include employments. (Paragraph 26)

192. Local bodies should not be empowered to call for the accounts of assessee. They should only call for a return of income from persons who appear to be liable to the tax. (Paragraph 27)

193. In the case of a person or company transacting business solely in a local area and producing before the local authority his income-tax assessment order for a year, the local body should fix the assessment to profession tax for that year on the basis of the income computed for determining income-tax. (Paragraph 27)

194. The feasibility of assessment and collection of profession tax by the Income-tax Department may be examined by the municipal corporations of Calcutta and Bombay.

If the Income-tax Department cannot take over the work of assessment and collection of profession tax, that Department should render every possible help to the municipal corporations concerned, by supplying to them lists of persons liable to income-tax. (Paragraph 28)

195. *Tax on vehicles, animals, etc.*—Taxes on vehicles, other than motor vehicles should be one of the taxes reserved for the benefit of local bodies. State Governments should not, save for exceptional reasons, levy this tax themselves and where they happen to levy it, as in Travancore-Cochin, the proceeds should be made over to the local bodies. (Paragraph 32)

As regards motor vehicles, (the recommendation is made in the chapter on the Motor Vehicles Tax) municipal corporations should levy, individually a separate 'wheel' tax; the municipalities

and district local boards should receive a share of the income from the State motor vehicles tax. (Paragraph 31).

196. *Theatre tax.*—There is legitimate scope for the levy of both the entertainments tax on admissions and the theatre tax for each show or performance. Municipalities and municipal corporations in all States may be empowered to levy a theatre tax at a flat rate for each show or performance. Municipal corporations should be empowered to classify the theatres into two or three categories and to fix different rates for each category. (Paragraph 35)

197. *Tolls.*—With one reservation, the abolition of tolls is recommended, wherever that has not already been effected. The exception relates to new bridges costing over a sum of about Rs. five lakhs each. In such cases, tolls may be levied till the cost of construction is recouped. The loss of revenue which may be caused by the abolition of tolls may be made up by payments to local bodies from the proceeds of the motor vehicles tax recommended in another chapter. The rates of the tax on motor vehicles may be revised suitably wherever necessary. (Paragraph 37)

198. *Tax on advertisements.*—Municipal Corporations and the bigger municipalities may be empowered to levy the tax on advertisements other than advertisements published in newspapers. (Paragraph 40)



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